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In the Supreme Court of the United States

OCTOBER TERM, 1939

No. 536

ETHYL GASOLINE CORPORATION, EARLE W. WEBB, AND JOHN COARD TAYLOR, APPELLANTS

v.

THE UNITED STATES OF AMERICA

ON APPEAL FROM THE DISTRICT COURT OF THE UNITED STATES FOR THE SOUTHERN DISTRICT OF NEW YORK

BRIEF FOR THE UNITED STATES

OPINION BELOW

The opinion of the District Court (R. 43) is reported in 27 F. Supp. 959.

JURISDICTION

The final decree of the District Court was entered on August 14, 1939 (R. 62). An appeal was allowed on October 9, 1939 (R. 69). The jurisdiction of this Court to review the decree of the District Court upon direct appeal is conferred by Section 2 of the Expediting Act of February 11, 1903, as amended, 32 Stat. 823, 36 Stat. 1167,

U. S. C., Title 15, Sec. 29; and Section 238 of the Judicial Code, as amended, 36 Stat. 1157, 38 Stat. 804, 43 Stat. 938, U. S. C., Title 28, Sec. 345. Probable jurisdiction was noted on December 11, 1939.

QUESTION PRESENTED

Appellant (the Ethyl Gasoline Corporation) is the owner of patents purporting to cover (1) a fluid composed chiefly of tetraethyl lead, (2) motor fuel containing the patented fluid, and (3) the use of the motor fuel in internal-combustion engines. Appellant manufactures and sells the patented fluid to refiners whom it licenses to manufacture, distribute, and sell motor fuel purportedly covered by appellant's patents. The licenses require refiners to sell the motor fuel only to jobbers who are licensed by appellant. The question presented is:

Has appellant, through the use of its licensing plan, restrained trade in violation of the antitrust laws (a) by excluding jobbers from the market unless they accept and comply with the terms and conditions dictated by appellant; and (b) by compelling jobbers to abide by the marketing practices and price policies prevailing in the industry and thus compelling them to maintain resale prices?

STATUTE INVOLVED

Section 1 of the Act of July 2, 1890, c. 647, 26 Stat. 209, U. S. C., Title 15, Sec. 1, known as the Sherman Act, as amended by the Act of August 17, 1937, c. 690, 50 Stat. 693, provides in part as follows:

SEC. 1. Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is hereby declared to be illegal. * * *

STATEMENT

INTRODUCTION

This is an appeal from the decree of the United States District Court for the Southern District of New York perpetually enjoining appellants (a) from licensing jobbers to sell and distribute lead-treated motor fuel and (b) from enforcing provisions in licenses issued to refiners which permit them to sell lead-treated motor fuel only to licensed jobbers (R. 62–64). The suit was commenced by a complaint filed on February 19, 1937, charging that appellants, by means of the licensing policies and practices therein described, had violated the Sherman Act by unlawfully restraining the manner of sale and the prices of the greater part of all gasoline sold in interstate commerce (R. 1–9). Appellants by their answer denied the charges in substance but admitted that they had followed many of the practices and policies described in the complaint and alleged additional facts purporting to justify their conduct (R. 9–17).

THE FACTS

Counsel for the parties stipulated that the issues raised by the pleadings should be tried on an agreed

statement of facts (R. 18). The pertinent facts are:

1. *Appellants.*—Ethyl Gasoline Corporation (hereinafter referred to as the Ethyl Corporation or as appellant) is a corporation organized in 1924 under the laws of the State of Delaware and has its principal place of business in New York City. One-half of its capital stock is owned by the Standard Oil Company (New Jersey) and the remainder is owned by the General Motors Corporation and E. I. du Pont de Nemours Company. Earle W. Webb is the president of the Ethyl Corporation and John Coard Taylor is its vice president in charge of sales, and both are parties to this appeal (R. 18).[1]

2. *The Business of the Ethyl Corporation.*—The Ethyl Corporation is engaged in the business of manufacturing and selling a fluid consisting principally of tetraethyl lead (R. 18). The composition of the fluid is covered by Letters Patent of the United States: No. 1,592,954, issued July 20, 1926; and No. 1,668,022, issued May 1, 1928 (R. 19, 20, 79–82). The Ethyl Corporation owns these patents and is the sole producer of the fluid in the United States (R. 19). The fluid is sold by appellant to refiners to be mixed with the latter's gasoline, and with the intention that the treated

[1] It is stipulated that each of the acts and practices of Ethyl Corporation referred to in the agreed statement of facts was done under the authority, express or implied, of Webb and Taylor (R. 42).

gasoline shall be used as motor fuel (R. 23). Sales of the fluid are made only to refiners who have been licensed by the Ethyl Corporation and such sales constitute the corporation's sole source of income (R. 23–24). The record does not disclose the actual figures, but it is stated that the corporation's annual profits are "very substantial" (R. 24).

Although the Ethyl Corporation engages solely in the business of manufacturing and selling the patented fluid, it holds patents purporting to cover the subsequent use of the fluid in making a motor fuel and the use of such fuel in internal-combustion motors. The claim to the process of producing motor fuel through physically mixing small portions of the patented fluid with quantities of ordinary gasoline is contained in each of the two patents described above and in Patent No. 1,573,846, issued February 23, 1926 (R. 19–20, 74–82). The claim to the use in motors of fuel containing the patented fluid is set forth in Patent No. 1,787,419, issued December 30, 1930 (R. 19, 20, 83–84). In manufacturing and selling the patented fluid, the Ethyl Corporation performs no operations which are covered by the patent claims which relate to the use of the patented fluid in manufacturing motor fuel or the use of that motor fuel in internal-combustion motors. Nor does the Ethyl Corporation collect any royalties or other charges under licenses

of these patents. Instead, as is explained at pages 9–14, *infra*, it purports to grant royalty free, limited licenses under these patents to purchasers of the patented fluid and to certain customers of those purchasers (R. 25–27, 101–129).

3. *The Use of the Patented Fluid in the Production of Motor Fuel.*—The Ethyl Corporation manufactures and sells the patented fluid solely for use in the production of an improved type of motor fuel (R. 23–24). The value of the fluid lies in the fact that small quantities, when mixed with gasoline, will reduce or eliminate the knocking which results from burning a mixture of gasoline and air in a motor of relatively high compression (R. 18). By increasing the compression of an automobile engine the efficiency is increased and the motor will generate more power and run longer on a given quantity of fuel. Hence smaller motors of high compression will perform the same task more efficiently than larger low compression motors (R. 19).

The utility of a motor fuel for use in high-compression motors is generally expressed in terms of octane numbers.[2] The amount by which the octane rating of a particular gasoline is increased through the addition of the patented fluid is directly dependent on the quantity of fluid which is mixed

[2] The octane numbers for gasoline are merely an arbitrary scale used to indicate the degree of compression to which the fuel may be subjected without causing a knock (R. 19).

with the gasoline (R. 25–26). In licensing refiners to mix the patented fluid with their gasoline, the Ethyl Corporation divides the field of motor fuels to be manufactured under its patents into two divisions on the basis of the quality or octane rating of the fuel to be produced, *i. e.*, ethyl gasoline and regular gasoline. All gasoline, except so-called "third grade" gasoline is of high octane or anti-knock value (R. 25).[3] The amount of tetraethyl lead contained in a gallon of either ethyl gasoline or regular gasoline is extremely small. A gallon of regular gasoline contains one part of tetraethyl lead to 4,200 parts of gasoline. A gallon of ethyl gasoline contains one part of tetraethyl lead to 1,700 parts of gasoline. (R. 26.)

Although no other substance comparable to the patented fluid is manufactured and sold commercially, there are other methods of producing gasoline of high octane value (R. 21–22).[4] However,

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[3] It is stipulated that gasoline of high octane or anti-knock value shall be deemed to be gasoline having an octane rating of 68 or more (R. 25).

[4] Improved refining processes have been developed by which it is possible to produce some gasoline of high octane value (R. 21–22). High octane ratings may be achieved by adding benzol or alcohol to gasoline but this method has not been used to any extent (R. 23). Alcohol has never been used commercially to any significant extent in this country although it has been used abroad for many years. Insufficient quantities of benzol are available for this purpose. Only about 2 percent of all gasoline is treated with benzol. (R. 23.)

the principal means of producing motor fuel of high octane value is by mixing the patented fluid with ordinary gasoline. Approximately 85 percent of all gasoline of high octane value sold in the United States contains the patented fluid manufactured and sold by the Ethyl Corporation (R. 23).

Approximately 80 percent of all gasoline sold in the United States is processed so as to obtain high octane rating. A substantial portion of the remaining 20 percent is sold as so-called "third grade" gasoline. Consequently, the fluid is at present an essential ingredient in 85 percent of the better grades of gasoline sold in the United States and in 70 percent of all gasoline sold in the United States. (R. 23.)[5]

All major oil companies except Sun Oil Company, American Oil Company, and the Shell Companies use the fluid in substantially all of their regular and premium gasoline (R. 22–23, 26).[6] In all, the Ethyl Corporation has issued licenses to 123 refiners, who together refine and sell approxi-

[5] Testimony before the Temporary National Economic Committee indicated that 522,000,000 barrels of motor fuel, or nearly 22,000,000,000 gallons, were consumed in the United States in 1938. *Verbatim Record of the Proceedings of the Temporary National Economic Committee*, Vol. 6, page 25, Bureau of National Affairs, Inc.

[6] The Shell Companies are licensed to use the fluid and do so in their premium and part of their regular gasoline. The American Oil Company has a license for use of the fluid but by preference treats its gasoline with benzol. The Sun Oil Company has never applied for a license to use the fluid. (R. 23.)

mately 88 percent of all gasoline sold in the United States (R. 26).. Included in this group is every major oil company except the Sun Oil Company (R. 22–23, 26).

4. *Interstate Commerce in Gasoline.*—The greater part of all gasoline manufactured at refineries and the greater part of all gasoline treated with the patented fluid is sold and transported in interstate commerce from the states in which the refineries are located into the other states of the United States. The gasoline is sold in part through wholesale and retail outlets owned or controlled by the refining companies, in part to independent retailers and consumers, and in part to jobbers for resale to retail dealers and consumers. (R. 24.)

A substantial part of all gasoline sold and distributed in the United States is distributed through 12,000 jobbers doing business in the several states. The greater part of the gasoline purchased by the jobbers is delivered to their bulk storage plants through the channels of interstate commerce. The jobbers, in turn, sell and distribute a small part of the gasoline in interstate commerce. (R. 25.) Of the 12,000 jobbers in business approximately 11,000 are licensed by the Ethyl Corporation to distribute and sell gasoline treated with the patented fluid (R. 27).

5. *The Licensing System Established by the Ethyl Corporation.*—The issue in this case is the

legality of appellant's licensing system. That system is based on the premise that no one can manufacture, sell, or use motor fuel which contains the patented fluid unless authorized to do so by the Ethyl Corporation. In the exercise of its asserted patent rights the appellant grants licenses to (a) refiners who manufacture gasoline using the patented fluid for that purpose and (b) jobbers who purchase the gasoline from refiners and resell it to retailers and consumers.[7] The aspect of the licensing scheme under attack consists of restrictive provisions in the license agreements designed to prevent all jobbers not licensed by the corporation from purchasing, selling, and distributing gasoline treated with the patented fluid. The manner in which these provisions operate will appear from the following discussion of the licenses.[8]

(a) *Refiner licenses.*—Ethyl Corporation licenses refiners who purchase the patented fluid from it to manufacture, sell, and distribute gasoline treated with the fluid (R. 25, 102, 110). The

[7] There is a third type of license, which is of no importance in this litigation, by which appellant licenses refiners to purchase lead-treated motor fuel from other refiners and to sell it under their own brand names (R. 119–122).

[8] Although the Ethyl Corporation has adopted the practice of granting separate licenses for ethyl gasoline and regular or "Q" gasoline, these licenses are, in general, the same (R. 25, 101–129). Unless otherwise specifically stated, the discussion of refiners' licenses and jobbers' licenses is applicable to both the licenses covering ethyl gasoline and the licenses covering regular gasoline.

licenses expressly limit the classes of persons to whom such motor fuel may be sold to the following: (1) other refiners licensed by Ethyl Corporation; (2) jobbers licensed by Ethyl Corporation; and (3) retail dealers and consumers (R. 102, 110). The refiners agree that upon notice of the cancellation of a license held by any other refiner or jobber the refiners will discontinue deliveries of the gasoline containing the patented fluid to refiner or jobber (R. 102, 115). The appellant agrees to sell the patented fluid at $9.841 per gallon, which is the equivalent of 26/100 of a cent per cubic centimeter (R.10, 111).

The mixing of the fluid with gasoline is required to be done at the refineries of the buyers and the equipment used for this purpose must meet the approval of appellant (R. 103, 111). In the handling and mixing process, the refiners agree to abide by the regulations promulgated by the Surgeon General of the United States and by any other regulations issued by any governmental body having jurisdiction. The refiners agree to impose similar obligations on all purchasers of the treated gasoline and to require the purchaser to impose like obligations on those to whom they sell. (R. 103, 111–112.) Representatives of appellant are given free access to the premises of the refiners and the right to make physical examinations of refinery employees (R. 103–104, 112).

Under the licenses covering the manufacture of

ethyl gasoline, the refiners agree to sell ethyl gasoline to their various classes of customers at certain fixed differentials above the average net sale price of the refiners' best nonpremium grade of commercial gasoline (R. 110). The licenses covering the manufacture of regular gasoline provide that gasoline manufactured under such licenses shall be the refiners' best nonpremium grade gasoline and shall be sold as the next highest-priced motor fuel below the refiners' ethyl gasoline (R. 102).

The license covering the manufacture of regular gasoline requires that the fuel produced thereunder shall have an octane rating not in excess of 70 (R. 25, 104). The license covering the manufacture of ethyl gasoline requires that such gasoline shall meet the standard as fixed by appellant—at present a minimum octane rating of 76 (R. 25, 113). Both licenses contain minimum standards for gasoline which is to be treated with the fluid (R. 104–105, 113). It is provided that the maximum amount of fluid to be added per gallon of gasoline shall be three cubic centimeters (R. 105, 114).

The license covering regular gasoline expressly forbids the refiner to use the name of the Ethyl Corporation, its trade-mark, or the trade names "Ethyl" and "Q" in connection with the advertising and sale of regular gasoline (R. 105). With one exception the licenses covering ethyl gasoline expressly require the refiners to use the word

"Ethyl" as a part of the brand name and to use the trade-mark and name of the Ethyl Corporation in connection therewith (R. 115).[9]

Ethyl gasoline constitutes only about 6 percent of the gasoline treated with the patented fluid; approximately 94 percent of gasoline so treated is regular gasoline (R. 26).

(b) *Jobber licenses.*—Jobbers desiring licenses are generally required by the Ethyl Corporation to submit their applications through the refiners from whom they expect to purchase (R. 27). The licenses issued to jobbers purport to grant the right to sell and deliver to retail dealers and consumers within a specified territory gasoline treated with the patented fluid by a licensed refiner (R. 125, 128). The jobbers are required to furnish appellant with a list, revised monthly, of all points at which motor fuel delivered under the licenses is sold. The jobbers agree to acquaint themselves with all health regulations relating to handling motor fuel containing fluid issued by the Surgeon General or any governmental agency; to post and distribute any notice dealing with the handling of such fuel; to permit physical examination of employees; and to require customers purchasing for resale to assume similar obligations. (R. 125, 128.) Adulteration of motor fuel distributed pursuant to

[9] The exception is the license issued to Standard Oil Company (New Jersey) which permits that company to market ethyl gasoline under the trade name "Esso" (R. 40).

the licenses is forbidden (R. 125, 128). Restrictions similar to those contained in the refiner licenses are imposed as to use of the Ethyl Corporation's name, trade-marks, and trade names in connection with the advertising and sale of ethyl gasoline and regular gasoline (R. 126, 128). The Ethyl Corporation retains the right to cancel the licenses issued to jobbers at any time for failure to comply with the terms thereof and either party may cancel, with or without cause, on thirty days' written notice (R. 126, 129).

6. *The Practical Operation of the Licensing System.*—The licensing plan gives appellant power to exercise control over practically the entire business of jobbing motor fuel. As pointed out above, 123 refiners (including every major oil company but one), who refine 88 percent of all gasoline sold in this country, have entered into license agreements with the Ethyl Corporation (R. 26). Gasoline processed by these refiners pursuant to the license agreements accounts for 70 percent of all gasoline sold in the United States and for 85 percent of all gasoline processed to obtain a high octane rating (R. 23). The one major oil company, Sun Oil Company, which does not hold a license to use the patented fluid, does not generally do business through jobbers (R. 23). Anyone in the United States desiring to handle lead-treated gasoline as a jobber must apply to the Ethyl Corporation for a license, since the license is a prerequisite to being able to purchase from licensed refiners.

Furthermore, the mere acquisition of the license does not end the actual and potential control exercised over the jobber's business and existence. The license is subject to immediate termination for failure to comply with the terms and restrictions imposed, and may be cancelled without cause on thirty days' written notice (R. 39, 126, 129). Each time a jobber who is selling under a refiner's brand changes his source of supply he is required to apply to appellant for a new license (R. 38).[10]

(a) *Use of the licenses to exclude jobbers from the market and to control marketing policies.*—In practice the licensing scheme has not only served to exclude jobbers from the market but has afforded a means of exercising supervision over the conduct of their business. Although approximately 11,000 of the 12,000 jobbers doing business in this country are licensed by the Ethyl Corporation, numerous applications for jobber licenses have been denied (R. 27, 37). Usually no records have been made or preserved which disclose the reason for denying applications for jobber licenses (R. 35–36). The greatest number of applicants who were denied licenses were turned down because field representatives of the Ethyl Corporation reported adversely on the "business ethics" of the applicant, the term "business ethics" being used to denote compliance

[10] The Ethyl Corporation has usually required that each jobber licensee purchase all his requirements of Ethyl gasoline from a single refiner of his own selection (R. 39).

with the marketing policies and prevailing prices in the petroleum industry (R. 36). The marketing policies and prevailing prices referred to are the marketing policies and posted retail gasoline prices adopted by the major oil companies or the market leaders among them (R. 37). Thus the Ethyl Corporation, through its separate agreements with 123 refiners, served to prevent persons from engaging in the marketing of gasoline as jobbers if investigation disclosed that such persons were likely to disregard the marketing policies and prevailing prices of the major refiners (R. 60).

(b) *The use of the licenses to maintain and control resale prices.*—In fact, the licensing scheme was actually operated for a much more far-reaching purpose than the mere exclusion of jobbers from the market. The court below was satisfied that the evidence as to the exclusion of jobbers amply supported the government's prayer for relief. Consequently it found it unnecessary to decide whether the exclusion of potential price cutters was part of a broader scheme to fix prices of gasoline (R. 52). But the stipulated facts plainly indicate that the control exercised by the Ethyl Corporation did not end with the mere selection of satisfactory jobbers.

Since 1929 each applicant for a jobber license has been investigated by a field representative of the Ethyl Corporation (R. 35). Until January 1935 one of the questions appearing on the form report

submitted by the field representatives related to the so-called "business ethics" of the jobber applicant. Subsequently the specific question was eliminated from the form, but the findings of the field representative as to "business ethics" have continued to be reported as part of the recommendations for or against issuance of the license. In many instances an adverse finding on "business ethics" is alone sufficient ground for the denial of a jobber license. (R. 36.)

The recommendations of the field representative determine largely whether a license will be granted. Following a customary practice, the field representatives usually do not set forth their reasons for recommending against issuance of a license. Except in extraordinary circumstances, the division manager's approval of the reports of the field representatives is perfunctory in character. The officials of the Ethyl Corporation charged with reviewing the reports on jobber applicants almost invariably adopt the recommendations of the field representatives when approved by the division manager. (R. 35.)

Usually the reports, which contain no reasons for recommendations against granting licenses, are the only records made or preserved disclosing why jobber licenses have been refused (R. 35–36). The failure to include in the reports reasons for the recommendations has been caused, to a large extent, by the reluctance of the Ethyl Corporation to

preserve in its records the extent to which the maintenance of gasoline prices and marketing policies by jobbers entered into the granting of licenses (R. 35).

It is stipulated that the greatest number of applicants who have been denied jobber licenses have been turned down on the basis of adverse findings by field representatives as to "business ethics".[2] In a number of instances jobbers whose practices were previously found unsatisfactory were granted licenses after representation that the jobbers' marketing practices would be changed. In at least an equal number of instances such representations were of no avail in securing the jobber a license. (R. 36.)

The Ethyl Corporation has licensed a number of jobbers who, investigation showed, were not maintaining the prevailing prices in the industry, or whose retail outlets were not doing so. In the case of a number of jobber licensees who have not followed the marketing practices prevailing in the industry and have not maintained retail prices posted generally in the industry, the Ethyl Corporation has taken no action. Some representatives of the corporation have, from time to time, however, reported to refiners the failure of jobbers

[2] Other applicants were refused because of unsatisfactory equipment, bad reputation in the local community, previous record for misbranding, adulteration, tax evasion, etc. (R. 37). The latter grounds were not included under "business ethics" as that term was used.

to abide by their suppliers' marketing policies and practices, and there have been sporadic instances of such representatives cooperating with refiner-suppliers to persuade jobbers to market gasoline in accordance with the suppliers' marketing practices. (R. 38.)

No statement or instructions have been issued to the effect that jobber licenses would be cancelled for failure to abide by the marketing practices and prevailing prices of the major oil companies, and jobber licenses have not been cancelled for this reason (R. 37, 39). It is stipulated, however, that testimony of witnesses for the government would tend to establish that a large number of refiners and a majority of jobbers believe that a jobber must maintain "business ethics" in order to obtain a license, and that a number of jobbers believe that jobber licensees are required to maintain the prices and abide by the marketing practices and policies of the major oil companies (R. 37). The effect of this belief is increased by the fact that jobber licenses may be cancelled without cause on thirty days' written notice (R. 39). Furthermore, the Ethyl Corporation investigates the operations of jobber licensees to determine the method of securing supplies; pump markings; facilities of bulk plant and nature of other physical equipment; number, character, and appearance of outlets; sales efforts; and, significantly, whether the licensees are maintaining the marketing poli-

cies, practices, and prices prevailing in the industry (R. 38).

In its supplementary instructions to field representatives issued in 1932, the Ethyl Corporation stated, "We have through these supplementary investigations been able to correct the ethyl-marketing picture to a considerable extent and have succeeded in eliminating from our jobber lists some of our former accounts who were not a credit to us as licensees of the Ethyl Gasoline Corporation" (R. 36, 183). From this statement it is apparent that the investigation of licensed jobbers conducted by the representatives of the Ethyl Corporation afforded a satisfactory means of correcting "the Ethyl marketing picture" regardless of the degree of coercion actually applied. When coupled with the scheme of selecting jobber licensees this policing system is patently a plan designed to enforce compliance by jobber licensees with the marketing practices and prevailing prices adopted by the major oil companies.

7. *Asserted Justifications of Appellant's Licensing System.*—In its brief appellant develops at some length facts which it contends demonstrate the necessity and reasonableness of its licensing system.[12] Many of these facts seem wholly irrelevant. Those which are reasonably germane to the issues may be summarized as follows:

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[12] Thus appellant asserts at one point that the licensing system resulted from the "need for encouraging the manufacture of automobiles with high-compression engines"

(a) *The alleged necessity for enforcing health and safety regulations.*—In considering this branch of the case, it is necessary to bear in mind that the license provisions, so far as they regulate jobbers, relate to the handling of gasoline containing comparatively minute quantities of the patented fluid and not to the handling of the patented fluid itself. This distinction is important because any health problem which exists is confined to the patented fluid and does not relate to the motor fuel manufactured therewith.

Soon after the patented fluid began to be used commercially in motor fuel, several serious cases of lead poisoning occurred in the manufacture of the patented fluid (R. 27). Interested parties sought

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(appellant's brief, pp. 12, 13). The facts upon which appellant relies to establish this point are completely *de hors* the record; many of them cannot be accepted at face value. For example, the discussion seems to suggest that appellant is in some measure responsible for the development of the high-compression engine. The historical fact is that high-compression motor fuel was developed to meet a need created by the existence of the high-compression engine. But even if appellant's facts are accepted, they establish no connection whatsoever between the licensing of jobbers and the manufacture of high-compression engines.

Appellant also contends that the licensing system was adopted because it wished to use the existing refining and distributing facilities of the industry (appellant's brief, p. 14). We have no quarrel with this desire; it is hardly necessary to point out, however, that the existing distribution system could easily have been used without imposing upon it the subinfeudation which the present licensing system involves.

the aid of government bodies; various groups conducted investigations and experiments (R. 27–29). This culminated in the appointment of a committee by the Surgeon General, which submitted a report to him that served as the basis for proposed regulations covering the manufacture and handling of both the patented fluid and the motor fuel treated with the fluid (R. 29–31). The Surgeon General recommended that states and municipalities should adopt the proposed regulations, but no state or municipality has adopted these or similar regulations (R. 31).

At the time, the situation was considered so serious that the sale of the patented fluid was voluntarily discontinued from May 1925 to June 1926 (R. 28). In January 1926 the committee appointed by the Surgeon General made its report, which disclosed that its investigation had unearthed no evidence of harmful effects resulting from the handling or use of motor fuel treated with the patented fluid (R. 29–31). The regulations proposed by the Surgeon General deal principally with precautions to be taken in mixing the patented fluid with gasoline (R. 31, 130–140). The only recommendations as to handling the motor fuel are that pumps and containers should carry suitable warning signs and that suitable leaflets describing possible dangers and precautions to be taken in using

ethyl gasoline should be available at all filling stations (R. 135, 140).[13]

No authentic cases of lead poisoning or other injury to health from gasoline containing the fluid have ever been discovered which could in any way be attributed to the presence of the fluid in such gasoline (R. 32). In the opinion of the executives and experts employed by the Ethyl Corporation, based on fourteen years of exhaustive research, gasoline containing the patented fluid is no more dangerous to health than any other gasoline when used as motor fuel (R. 32). There is absolutely no evidence that appellant's elaborate system of licensing jobbers is necessary to compel jobbers to handle gasoline in such a way as not to endanger public health.[14]

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[13] It is significant that the regulations proposed by the Surgeon General contained ten paragraphs relating to the manufacture of tetraethyl lead and its blending to make ethyl fluid, fourteen paragraphs with respect to the mixing of the patented fluid with gasoline to make motor fuel, and only three paragraphs relating to the distribution of ethyl gasoline (R. 130–135). Two of the paragraphs relating to the distribution of ethyl gasoline call for the display of signs; the other has to do with the distribution of leaflets describing precautions to be taken in the use of gasoline.

[14] Accepting all of appellant's contentions, the only precautionary step which is required to be taken in handling the motor fuel is to affix signs to the pumps (R. 135). These signs, which merely recite that the gasoline contains lead and should be used as motor fuel only (R. 141, 142), are supplied by appellant at a charge of seven cents apiece (R. 41–42). The use of the signs is doubtless a commendable precaution, but it is a fair inference from all of the

(b) *The asserted need to prevent the adulteration of motor fuel.*—Appellant also urges that the licensing system is necessary to prevent adulteration, dilution, and misbranding of motor fuel manufactured under the patents. Both the refiner and jobber licenses contain specific provisions designed to maintain the quality of gasoline treated with the patented fluid, and all licensees are obligated to impose similar restrictions on all subsequent handlers (R. 107, 114, 125, 128). In the case of regular gasoline, however, no minimum octane rating is required (R. 34). Insofar as regular gasoline, which constitutes 94 percent of all gasoline treated with the patented fluid, is concerned, dilution or adulteration has been found by appellant to occur to only a small extent (R. 26, 34). A number of instances of dilution and deterioration of ethyl gasoline sold to the public have been discovered (R. 34–35). When dilution or adulteration of regular gasoline has been discovered, it has ordinarily been necessary only to report the matter to the refiner whose gasoline was involved, in view of the refiner's interest in maintaining the quality of his product (R. 34).

THE OPINION, FINDINGS, AND DECREE OF THE COURT BELOW

The case was submitted on the agreed statement of facts and the briefs and oral arguments of coun-

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facts that the absence of the signs would create no serious health hazard of any kind.

sel. The court below filed its opinion on May 19, 1939, sustaining the government's prayer for relief (R. 43–57). After summarizing the facts, the opinion describes the complaint as charging two separate restraints: (1) a restraint upon licensed jobbers to compel them to participate in agreements or understandings to maintain resale prices, and (2) a restraint upon jobbers refused licenses who have been excluded from the market as a result of the agreements between the Ethyl Corporation and refiner licensees (R. 50). The opinion discusses the law and the facts relevant to each of the restraints charged and concludes that restraint imposed upon jobbers excluded from the market through the denial of licenses is ample justification for granting the relief sought.

In discussing the alleged restraint so far as it related to the maintenance of resale prices the court said (R. 52):

> A clear case of price maintenance thus is not made out, especially in view of the indefinite language of the stipulation. That an agreement or understanding for the maintenance of prices existed between defendants and their jobber licensees is perhaps a permissible but not a necessary conclusion from the stipulated facts. As the case can be disposed of on other grounds, it is unnecessary to pass upon this issue.

In reaching this conclusion the court was influenced by the fact that it was uncertain as to

whether the terms "marketing practices" and "marketing policies," as used in the stipulation of facts, should be construed as including "price policies." [15]

On August 14, 1939, the court entered its findings of fact, conclusions of law, and decree (R. 57–64). The findings of fact adopt and incorporate by reference the stipulation of facts (R. 57–58). In addition, certain ultimate findings of fact are included which are merely a reiteration of statements as to the facts which are contained in the opinion (R. 58–60). Likewise, the conclusions of law set forth in summary fashion the legal views expressed in the opinion (R. 60–61).

The decree perpetually enjoins the Ethyl Corporation, its officers, agents, representatives, and employees from enforcing, attempting to enforce, or including in any subsequent agreement, provisions that refiners shall sell lead-treated gasoline only to licensed jobbers; and from requiring or attempting to require jobbers to secure licenses and enforcing or attempting to enforce any outstanding jobber licenses (R. 63). Also, the jobber licenses are declared illegal, null, and void and appellant is required to notify all jobbers within sixty days that the licenses have been cancelled (R. 62–63). On

[15] We submit that taking the stipulation of facts as a whole, it is clear that the terms "marketing practices" and "marketing policies" include "price policies." This point is discussed at pages 38–39, *infra*.

the day the decree was entered a stay was granted pending the final determination of this cause on appeal (R. 64).

SUMMARY OF ARGUMENT

I

Appellant, through the use of its licensing system, has combined with 123 refiners producing all of the lead-treated gasoline sold in the United States to exclude from the business of handling such gasoline all jobbers except those licensed by the appellant. It is conceded that appellant has, in the exercise of its uncontrolled discretion, excluded jobbers from the market and has fixed the terms and conditions which must be met by those jobbers who have been given permission to enter the market. The combination restrains trade because it empowers appellant to decide who shall be allowed to enter the market and on what terms and conditions the permission to do so shall be granted. *Paramount Famous Pictures Corp.* v. *United States*, 282 U. S. 30; *United States* v. *First Nat. Pictures, Inc.*, 282 U. S. 44.

Appellant's licensing system also violates the antitrust laws because its basic purpose has been to compel jobbers to maintain resale prices of gasoline. Appellant has followed the practice of denying licenses to jobbers who, in its judgment, were not likely to maintain the marketing policies and price policies of the major oil companies. It is

generally thought in the trade that jobbers who do receive licenses must comply with such policies in order to retain their licenses. Appellant, through its field representatives, investigates the marketing practices of jobbers whom it licenses and admits that in this manner it has been able "to correct the Ethyl marketing picture to a considerable extent." Thus appellant has used the licensing system to exert direct, substantial, and extraordinary influence over the price policies of the individual jobbers. This kind of arrangement is clearly illegal under the antitrust laws and appellant makes no argument otherwise.

II

Appellant concedes, in effect, that its licensing system must be justified on the basis of its ownership of patents. However, an analysis of appellant's business demonstrates that appellant is not entitled to assume complete control over the marketing of lead-treated gasoline through the use of its patents. Appellant's business is the manufacturing of the patented fluid which is used in the production of such motor fuel. When it sells the fluid to the refiners it receives all the pecuniary reward which it seeks for the exploitation of its patent rights. Having thus chosen to obtain the reward for its invention through the manufacture and sale of the fluid, appellant has no right to control the marketing by its customers of motor fuel

containing the fluid. *Adams* v. *Burke*, 17 Wall. 453; *Hobbie* v. *Jennison*, 149 U. S. 355.

Appellant seeks to avoid the consequences flowing from the fact that it sold the patented article by relying upon other patents purporting to cover the mixing of the fluid with gasoline and the use of the motor fuel thus produced. The appellant is not attempting to obtain any financial return from the mixing and use patents. It is attempting to use them solely for the purpose of dominating the marketing of lead-treated gasoline in the United States. This is an improper use of the patent privilege. The rule is well established that a patentee cannot extend his control over subject matter which lies outside of the patent privilege by merely including such subject matter in his patent claims. *Carbice Corp.* v. *Am. Patents Corp.*, 283 U. S. 27; *Leitch Mfg. Co.* v. *Barber Co.*, 302 U. S. 458. By attempting to subdivide the privileges flowing from its invention into patents covering the product, the process, and the use, and by asserting the right to license under each type of patent, appellant has sought to dominate an entire industry. The licensing system gives appellant a potential power for evil over an entire industry; it is beyond the scope and the purpose of the patent laws and is void because, if sustained, it would be gravely injurious to the public interest. *Motion Picture Co.* v. *Universal Film Co.*,

243 U. S. 502, 518–519. Having thus developed under the guise of its patents a licensing system which has been used for an improper purpose appellant cannot assert the patent privilege as justifying any kind of licensing system.

III

Assuming, *arguendo,* that the reasonableness of the restrictions imposed by appellant is open for consideration, those restrictions cannot be justified as an exercise of the patent privilege. A patentee is entitled only to impose such restrictions in connection with the sale of a patented article as are normally and reasonably adapted to secure pecuniary reward for the patentee's monopoly. *United States* v. *General Electric Co.,* 272 U. S. 476. Restrictions imposed under this rule must be tested by an objective standard of reasonableness. The restrictions imposed by appellant do not meet this test.

Appellant attempts to justify its licensing system on the basis of the restrictions purporting to relate to the protection of public health. While there are dangers involved in the handling of the patented fluid, there is no hazard in handling motor fuel which contains minute quantities of such fluid. Since the jobbers handle only the motor fuel, the licensing system is clearly unnecessary for their protection or the protection of their customers. Appellant's own course of conduct shows

that protection of the public health is not the real reason for the licensing scheme. It is not to be assumed that refiners and jobbers are not as zealous to protect the public health as is appellant or that they would behave in a reckless or improper manner in the absence of the licensing scheme.

Appellant also suggests that the licensing system is necessary to prevent the dilution, adulteration, and deterioration of motor fuel containing the fluid which appellant sells. On appellant's own showing this argument is applicable only to ethyl gasoline, which constitutes about 6 percent of all lead-treated motor fuel. Furthermore, the product which appellant fears may be adulterated is in reality the product of the refiners. Obviously, the refiners are the ones who have a direct interest in maintaining the quality of this product and appellant's interest is too remote to justify its licensing system.

The suggestion is made that appellant's ownership of certain trade-marks may have some bearing upon its right to maintain the licensing system. This argument applies to only 6 percent of the lead-treated motor fuel because licensees are prohibited from using the trade-mark in connection with regular gasoline. The validity of appellant's trade-mark is highly questionable. In any event, the privileges flowing from the ownership of the trade-mark can be no greater than those covered by appellant's patents.

Insofar as appellant seeks to justify its licensing system on the ground that it is necessary for it to maintain resale prices of motor fuel, appellant is seeking justification from the very facts which make its scheme illegal. Appellant cannot bring itself within the rule announced in *United States* v. *General Electric Corp.*, 272 U. S. 476, because it does not manufacture the product upon which it seeks to fix the price. The price of the motor fuel has no substantial relationship to appellant's financial return from its patent monopoly. Appellant's patents do not entitle it to combine with others to boycott and to exclude from the market all persons who do not accept appellant's economic theories as to the undesirability of price competition.

IV

In striking down the entire jobber licensing scheme the court below granted the only effective relief which could be given. No other decree would suffice to assure jobbers that they were completely free of domination and free to engage in the competition which is protected by the antitrust laws. A decree which permitted appellant to retain the licensing system in any form would invite abuses through secrecy and concealment. The government should not be required continually to police a licensing plan which presents inherent opportunities for misuse.

ARGUMENT

I

APPELLANT'S LICENSING PLAN DIRECTLY AND SUBSTANTIALLY RESTRAINS TRADE

A. THE LICENSING PLAN EXCLUDES JOBBERS FROM THE MARKET UNLESS THEY ACCEPT THE TERMS AND CONDITIONS DICTATED BY APPELLANT—

Appellant's licensing system consists in part of a series of separate agreements between the appellant and 123 refiners. By the agreements the refiners agree not to sell lead-treated gasoline to any jobber who has not previously been approved by appellant. These 123 refiners produce all of the lead-treated gasoline produced and sold in the United States, and 88 percent of all gasoline (R. 26). As has been pointed out earlier in this brief, approximately 85 percent of all of the high octane gasoline sold in the United States is lead-treated and 70 percent of all gasoline is lead-treated (R. 23).

It is admitted that the appellant has denied numerous applications for jobber licenses. The effect of each of these denials was to exclude the applicant absolutely from handling lead-treated gasoline and seriously and substantially to limit his opportunity to deal in any kind of high octane gasoline. Those persons who are now acting as jobbers in the sale of lead-treated gasoline are able to do so only because appellant has granted them permission. Appellant, in the exercise of its uncontrolled discretion, has fixed the terms and conditions which

must be met before this permission is granted. It reserves the right to withdraw its permission without cause at any time upon thirty days' written notice (R. 39).

The court below held that this series of agreements "clearly is in restraint of trade" (R. 52). We submit that this conclusion is correct.

At points in its argument appellant attempts to create the impression that the number of exclusions from the market has been small. But this aspect of the case cannot be disposed of by resort to the doctrine of *de minimis*. In the stipulation appellant admits that it has denied "numerous applications for jobber licenses" (R. 27).[16] In any event the number of persons denied access to the market is not controlling on the question of whether appellant's scheme directly and substantially restrains trade. If appellant had, contrary to the fact, admitted every applicant to the market, the scheme would nevertheless be in restraint of trade because it has the effect of empowering ap-

[16] There is evidence that there are approximately 12,000 jobbers of gasoline in the United States (R. 25) and that 11,000 of them have been granted licenses by appellant (R. 27). It does not follow, as appellant suggests, that only a fraction of one thousand persons has been excluded from the market. There is no evidence as to the number of persons who wished to enter the jobbing business but have not done so because they were denied licenses.

pellant to decide who shall enter the market and on what terms and conditions he shall be permitted to do so. *Paramount Famous Pictures Corp.* v. *United States*, 282 U. S. 30; *United States* v. *First Nat. Pictures, Inc.*, 282 U. S. 44.[17]

If this series of agreements between appellant and the refiners is regarded merely as an exercise by appellant of its ordinary power to contract, the combination is illegal under the antitrust laws. The effect of the series of agreements is to provide for concerted action by appellant and the 123

[17] In *United States* v. *First Nat. Pictures, Inc.*, 282 U. S. 44, ten motion picture corporations, which controlled 60 percent of the business of supplying motion-picture films, agreed among themselves upon a standard form of licensing contract for dealing with exhibitors. Thereafter they agreed, through 32 local film boards of trade, with other distributors who controlled an additional 38 percent of the entire business of supplying motion-picture films, to establish uniform credit rules which would apply to persons who acquired by purchase or transfer motion-picture theatres and who wished to operate them. The government attacked this arrangement as a violation of the antitrust laws. The district court held (34 F. (2d) at p. 818) that the arrangement was not illegal, pointing out in its opinion that no exhibitor had complained and that no injury to individual traders had been shown. Nevertheless, this Court held that the arrangement restrained trade and violated the Sherman Act. It is apparent from the record and briefs in that case that the government did not rely upon actual refusals of the defendants to deal with any particular persons. That case, like this one, was a case in which the defendants had combined to prevent others from having access to the market except on terms fixed by the defendants.

refiners. It is of no consequence that concerted action has been achieved by a series of contracts rather than by a single agreement. It is likewise of no consequence that the parties to the combination may not have acted simultaneously. *Interstate Circuit* v. *United States*, 306 U. S. 208, 226–229.

As the court below pointed out, appellant through the separate agreements has "accomplished what the refiners, without the defendants' aid, could achieve only by a concerted refusal to deal with the jobbers * * *. The defendants can fare no better with their system of separate agreements than could the refiners if they formed such a combination" (R. 53). Appellant's licensing plan is an arrangement between those occupying a dominant position in an industry to deny access to the market except on their own terms. In the absence of some special justification, this Court has consistently condemned such arrangements. *Dr. Miles Medical Co.* v. *Park & Sons Co.*, 220 U. S. 373, 408; *United States* v. *Brims*, 272 U. S. 549; *Eastern States Lumber Ass'n* v. *United States*, 234 U. S. 600; *Paramount Famous Pictures Corp.* v. *United States*, 282 U. S. 30; *United States* v. *First Nat. Pictures, Inc.*, 282 U. S. 44.

B. THE LICENSING PLAN IS USED TO COMPEL JOBBERS TO COMPLY WITH THE PRICE POLICIES AND MARKETING PRACTICES OF THE MAJOR OIL COMPANIES AND THUS TO MAINTAIN RESALE PRICES

The court below disposed of the case on the ground that the licensing plan restrained trade by excluding jobbers from the market unless they

would accept the terms and conditions fixed by appellant; it found it unnecessary to decide whether the plan also restrained trade because it was used to compel jobbers to comply with the marketing practices and price policies of major oil companies (R. 52). This conclusion was plainly correct. The exclusion of jobbers from the market is a restraint of trade irrespective of whether the plan is also used to maintain resale prices. Nevertheless, the admissions made by appellant in the stipulation leave no doubt that in fact the plan was used for this latter purpose.

Appellant investigates each applicant for a license. This investigation is made by a field representative who exercises wide discretion in recommending the granting or rejection of the application. The recommendation of the field representative is largely decisive of whether a license will be issued. These field representatives are supplied with forms to use in reporting upon their investigations (R. 35). Appellant admits that probably the most important matter which the field representative investigates is the "business ethics" of the applicant. The form used for making a report of the investigation from April 1929 to January 1935 contained a specific question relating to "business ethics" (R. 36, 143). In January 1935 the form was changed so as to eliminate this question, but even after January 1935 the "business ethics" of the jobber continued to be one of the principal subjects of investigation and the findings of the

field representative with respect thereto were included in the recommendations he made as to the disposition of the application (R. 36, 144).

Appellant concedes that an adverse finding upon the "business ethics" of an applicant in many instances, quite apart from anything else, has been sufficient ground for the refusal of a license. It is even more significant that appellant admits that the greatest number of applicants who have been denied licenses were rejected on the basis of adverse findings made by the field representatives as to their "business ethics" (R. 36). Appellant's brief frankly states that appellant denies applications for licenses because the applicants are price cutters (appellant's brief, pp. 61–71). In a number of cases jobbers have been required to promise that they would change their marketing practices before licenses were granted. In other cases appellant refused to grant a license despite representations by the applicant that it was willing to change its marketing practices. (R. 36.)

It is unnecessary to speculate as to the meaning of the term "business ethics." Appellant admits that it uses those words "to denote compliance with marketing policies and prevailing prices of the petroleum industry" (R. 36). Appellant also concedes that the "marketing policies and prevailing prices" referred to are the marketing policies and posted prices "adopted by the major oil companies or the market leaders among such com-

panies" (R. 37–38).[18] To understand this definition of "business ethics" it is unnecessary to make any sharp distinction between the terms "marketing practices" and "marketing policy" on the one hand and such terms as "price policy" and "posted prices" on the other.[19] The terms "marketing policy" and "marketing practices" doubtless have a somewhat wider meaning than "price policy" and "posted prices." But that they include prices within their scope is too obvious to require argument because price is determined by all of the practices and policies which affect the market. It follows that for all practical purposes the euphemism "business ethics" is synonymous with "price policy."

The interest of appellant in the price policies of the jobbers does not cease upon the granting of a license. Supplementary investigations of licensed jobbers are made from time to time and reports made to appellant on the same forms which are used for applications (R. 37). Appellant admits that it has investigated the operations of its jobber

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[18] In appraising these facts it is well to bear in mind that one-half of the capital stock of appellant is owned by the Standard Oil Company (New Jersey) (R. 18). This is the largest oil company operating in the United States (see *Verbatim Record of the Proceedings of the Temporary National Economic Committee*, Vol. 6, page 103, Bureau of National Affairs, Inc.).

[19] The court below apparently regarded the separate use of the terms "marketing policies," "marketing practices," and "posted prices" in the stipulation as somewhat confusing. See pages 25–26, *supra*.

licensees to determine, among other things, whether they are maintaining the marketing policies, practices, and prices prevailing in the industry (R. 38). In its *Field Representative Manual* appellant states (R. 183):

> We have through these supplementary investigations been able to correct the Ethyl marketing picture to a considerable extent and have succeeded in eliminating from our jobber lists some of our former accounts who were not a credit to us as licensees of the Ethyl Gasoline Corporation.

From time to time some of the division managers and field representatives of appellant have reported to refiners that jobbers have not been abiding by the refiners' marketing policies and practices, and there have been sporadic instances in which appellant's representatives in cooperation with refiners have persuaded jobbers to market gasoline in accordance with the refiners' marketing practices (R. 38). Appellant's power of persuasion in this respect should be judged in the light of the fact that a jobber's license can be cancelled by appellant without cause, upon thirty days' notice (R. 39). In a few instances appellant has gone so far as to refuse a new license to a jobber who wished to change his source of supply because he had not maintained the policies, practices, and prices of the major oil companies or the market leaders among them (R. 39).

The facts which have just been summarized establish beyond any doubt that appellant has used its licensing system to maintain resale prices and to control and dominate the price policy of the jobbers.[20] It is of no avail for appellant to point out that in some cases it has issued licenses to jobbers who were not abiding by the prices prevailing in the industry (R. 38). Appellant's regulation of the market may not have been applied with rigid uniformity to all applicants, but it has been deliberately applied on a wide scale. Nor is it particularly significant that, despite the existence of the licensing system, price cutting has been practiced by some licensed jobbers (R. 38). An illegal combination or conspiracy does not cease to be illegal merely because its success is not absolute and unqualified.

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[20] The court below, in its opinion, stated (R. 52):

> A clear case of price maintenance thus is not made out, especially in view of the indefinite language of the stipulation. That an agreement or understanding for the maintenance of prices existed between defendants and their jobber licensees is perhaps a permissible but not a necessary conclusion from the stipulated facts. As the case can be disposed of on other grounds, it is unnecessary to pass upon this issue.

In its findings of fact the court found (R. 60):

> The petitioner has failed to establish a clear case of price maintenance through agreement or understanding with jobbers.

We do not view this statement and finding as holding that appellant has not used its licensing system to maintain prices and to dominate and control the price policies of jobbers. We do not believe that the court below

An answer to these suggestions and to all of appellant's arguments that it has not succeeded in restraining competition is supplied when we consider the frame of mind which the appellant's methods have created in the industry. It is agreed that the evidence would tend to establish that a large number of refiners and a majority of jobbers believe that a jobber must maintain "business ethics" to obtain a license, and that a number of jobbers believe that jobber licensees are required to maintain the prices and abide by the marketing practices and policies of the major oil companies (R. 37). To create this atmosphere it has not been necessary for appellant to issue any statement that it would cancel licenses for price cutting (R. 37), or to cancel licenses for failure to maintain the policies, practices, and prices of the major oil companies (R. 39). The fact that appellant has been able to create this frame of mind without making

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intended either the statement in its opinion or the finding of fact to carry this broad implication. Both statements seem to relate to the question of whether there was an agreement between appellant and its jobbers. We submit that it is unnecessary to decide whether such an agreement existed. By combining with refiners appellant has forced the jobbers to accept its dictates if they wish to continue in business. This is not a case of agreement but of coercion. As this Court said in *Federal Trade Comm.* v. *Beech-nut Co.*, 257 U. S. 441, 455, this is "suppression of the freedom of competition by methods in which the company secures the cooperation of its distributors and customers, which are quite as effectual as agreements express or implied intended to accomplish the same purpose."

public announcements and without actually cancelling licenses is persuasive evidence of the efficacy of the means it has devised to dominate the market. The tactics which appellant follows in passing upon applications for licenses, in continually supervising and inspecting the activities of its licensees, and in passing upon applications for new licenses made by jobbers who wish to change their source of supply are more than adequate; it is unnecessary to resort to blunt warnings, to crude threats, or to punitive cancellations.

So long as jobbers are in this frame of mind and so long as appellant retains its power to cancel their licenses without cause and thus to deprive them of access to the market, it possesses an effective instrument for suppressing competition. The fact that a majority of jobbers believe that active competition in the market will lead to cancellation of the license proves the efficacy of the instrument. Its force is not impaired, or its existence denied, by the fact that appellant may forbear to use it.

The real purpose of the licensing plan is also indicated by the extraordinary lengths to which appellant has gone to conceal its desire to maintain prices and control price policy. The field representatives of the company have usually not set forth in writing their reasons for recommending against the issuance of licenses. It is admitted that to a great extent this is the result of the reluctance of appellant to preserve in its records evidence as

to the extent to which marketing policies and the maintenance of gasoline prices are taken into account in granting licenses (R. 35). It is also significant that appellant admits that the amount of reliance placed by appellant on the "business ethics" of jobbers has "normally not been disclosed" in its records and communications (R. 36). Finally, it should be noted that appellant caused the question relating to "business ethics" to be eliminated from the form of jobber report in January 1935, although it is stipulated that at all times since that date the "business ethics" of the jobbers have been the principal object of appellant's interest (R. 36).

Light is thrown on the real purpose of the licensing plan by Point II of appellant's brief, which attempts to justify appellant's admitted refusal to license jobbers who do not comply with the price policies of the major oil companies. The argument displays a reluctance to accept the consequences of a free market. Appellant assumes that price competition beyond the limits thought by appellant to be reasonable is dangerous and antisocial, and it characterizes such competition and those who engage in it by condemnatory adjectives. Thus, there are references to traders who "undermine" the market (appellant's brief, p. 65); to commodities which are used as "price footballs" (*id.* at 66); to "industrial piracy" (*id.* at 68); to "indiscriminate price cutting" (*id.* at 69); to "notorious

price cutters" (*id.* at 71); and to those who "depress the prevailing retail price" and thus "create suspicion and ill will" (*id.* at 67). It is a fair inference from the whole tenor of this argument that appellant is more keenly aware of the vices of price competition than of its virtues and that in good faith it believes that its patents give it the right to determine how much and what kind of price competition is desirable in the distribution and sale of gasoline.

Inasmuch as appellant admittedly acts on these principles in excluding jobbers from the market, it can hardly be doubted that similar motives color the administration of other aspects of its licensing system. Certainly the economic considerations which appellant urges with such earnestness in defense of its denial of licenses to price cutters, if valid, apply with equal force to its relations with its licensees. If it is important for appellant to exclude from the market persons likely to engage in undesirable price competition, it is equally desirable, from appellant's point of view, to prevent such price competition by existing jobber licensees. Appellant's own brief betrays a desire to restrain and limit price competition. The licensing system enables appellant, by acting in concert with 123 refiners, to translate that desire into effective action.

This kind of a combination designed to suppress and restrain price competition by the concerted action of those occupying a dominant position in the markt is clearly illegal under the antitrust laws. *Dr. Miles Medical Co.* v. *Park & Sons Co.*, 220 U. S. 373; *Eastern States Lumber Ass'n* v. *United States*, 234 U. S. 600; *Federal Trade Comm.* v. *Beech-Nut Co.*, 257 U. S. 441; *United States* v. *Trenton Potteries Co.*, 273 U. S. 392; *Interstate Circuit* v. *United States*, 306 U. S. 208. Even as a purported exercise of the patent privilege, the licensing plan is illegal if in fact it has been used to maintain resale prices, and appellant makes no serious contention otherwise. That it has been used for this purpose is established by the admitted facts.

II

APPELLANT, HAVING SOLD THE PATENTED FLUID TO THE REFINERS, CANNOT LEGALLY RESTRICT OR CONTROL THE MARKETING OF MOTOR FUEL

If the licensing system is to be defended at all, it must be defended on the basis of the special privileges which appellant insists result from its ownership of certain patents and of a trade-mark. This appellant, in effect, concedes because in attempting to justify the licensing system it relies solely upon its patents and trade-mark.

Appellant contends that by reason of its patents it is entitled to issue licenses which restrict and control the use and marketing of gasoline after it

is sold by the refiners. Appellant accordingly concludes that the only issue involved in this case is whether the restrictive conditions imposed upon the jobbers are reasonable and necessary incidents of the commercial exploitation of appellant's patent privilege. Even if the premise from which this argument proceeds is sound, the conclusion must be rejected because the jobber licenses are not necessary or proper means for the exploitation of appellant's patent privilege (see pages 70–91, *infra*). But the premise itself is unsound. Quite apart from any question of reasonableness appellant's patents give it no right to control the marketing or use of lead-treated gasoline in the hands of either the refiners or the jobbers.

This follows from the way in which appellant does business and particularly from the method it has chosen to exploit its patents. Appellant sells patented ethyl fluid to licensed refiners. It sells the patented fluid intending that it shall be mixed with gasoline and that the gasoline so treated shall be used as motor fuel (R. 23). Concededly the patented fluid has no valuable commercial use except for the manufacture of motor fuel. Appellant makes its profits solely from the sale of the patented fluid (R. 24). Although it issues licenses to refiners and to selected jobbers, it receives no royalties or license fees. Thus, appellant has chosen to exploit its patents by manufacturing the fluid covered by the patents and sell-

ing that fluid for use in the manufacture of motor fuel.[21]

The legal question which arises on these facts is this: Having chosen to exploit its patents in this particular way, can appellant sell the patented fluid and at the same time control the subsequent marketing and use of the motor fuel containing the patented fluid? We submit that the decisions of this court, and the reasoning and public policy which those decisions reflect, establish that the licensing system by which appellant attempts to accomplish this result is not within the scope of the patent privilege.

The determination of the extent of the patent privilege and the definition of the purposes for which it may be used is a task which the courts always carry out in the light of considerations of legislative policy and public interest. This Court said in *Kendall et al.* v. *Winsor*, 21 How. 322 (pages 327–328):

> It is undeniably true, that the limited and temporary monopoly granted to inventors was never designed for their exclusive profit or advantage; the benefit to the public or community at large was another and doubtless the primary object in granting and securing that monopoly. This was at once

[21] In so doing appellant has chosen to retain for itself a monopoly on the important and novel element in its patents, *i. e.*, the fluid. This is discussed later in the brief. *infra* pages 55–56.

> the equivalent given by the public for benefits bestowed by the genius and meditations and skill of individuals, and the incentive to further efforts for the same important objects. The true policy and ends of the patent laws enacted under this Government are disclosed in that article of the Constitution, the source of all these laws, viz: "to promote the progress of science and the useful arts," contemplating and necessarily implying their extension, and increasing adaptation to the uses of society.

Again in *Motion Picture Co.* v. *Universal Film Co.*, 243 U. S. 502, this Court said (pages 510–511):

> Since *Pennock* v. *Dialogue*, 2 Pet. 1, was decided in 1829 this court has consistently held that the primary purpose of our patent laws is not the creation of private fortunes for the owners of patents but is "to promote the progress of science and useful arts" * * *.

These considerations of public policy are usually decisive of any case which involves the scope of the patent privilege.[22] For example, this Court has consistently limited the patent privilege by refer-

[22] The disregard of this principle leads to one fundamental misconception which underlies all of appellant's argument. Its brief insists that the extent of the patent privilege should be measured by the patentee's "reasonable business judgment." This has never been the law and to add this kind of gloss to the patent statute would be to pervert its fundamental purpose. See the discussion of this point at pages 72–73, *infra*.

ence to such broad considerations of policy as the reluctance of the law to encourage restraints on the alienation of chattels, and the public interest in the preservation and enforcement of unfettered competition and a free market. Thus this Court in familiar decisions has held that a patentee cannot sell the patented article and thereafter by purported licenses or other contractual arrangements control the use of the article (*Adams* v. *Burke*, 17 Wall. 453; *Hobbie* v. *Jennison*, 149 U. S. 355; *Keeler* v. *Standard Folding Bed Co.*, 157 U. S. 659) or the price at which the patented article shall be sold (*Bauer* v. *O'Donnell*, 229 U. S. 1; *Straus* v. *Victor Talking Machine Co.*, 243 U. S. 490; *Boston Store* v. *American Graphophone Co.*, 246 U. S. 8). The prohibition against control after sale is absolute and unqualified and reflects the consistent policy of this Court to strike down restraints upon the alienation of chattels.[23] This Court has announced the same rule in dealing with attempts to impose restraints upon the free marketing of copyrighted articles (*Bobbs-Merrill Co.* v. *Straus*, 210 U. S. 339), and articles made by a secret formula (*Dr. Miles Medical Co.* v. *Park & Sons Co.*, 220 U. S. 373, 409).

When the patentee, instead of selling the patented article, grants a license for its use, manufac-

[23] For a statement of this policy, see *Dr. Miles Medical Co.* v. *Park & Sons Co.*, 220 U. S. 373, 404–405, and *Straus* v. *Victor Talking Machine Co.*, 243 U. S. 490, 500–501.

ture, and sale, certain kinds of restrictive conditions are likewise invalid. Thus provisions in a license agreement by which the patentee attempts to control subject matter outside the scope of the patent privilege are unlawful, irrespective of any question of reasonableness or of the financial benefit which they may bring to the licensor. *Motion Picture Co. v. Universal Film Co.*, 243 U. S. 502; *Carbice Corp.* v. *Am. Patents Corp.*, 283 U. S. 27; *Leitch Mfg. Co.* v. *Barber Co.*, 302 U. S. 458.[24]

[24] This Court has made a distinction between a patentee who sells the patented article and thereafter attempts to control its use and a patentee who grants a license with conditions which restrict the use which may be made of the article by the licensee. See *United States* v. *General Electric Co.*, 272 U. S. 476, 489–490, 493–494.

This Court has also made a distinction between the rule to be applied when the patentee himself sells the patented article and the rule which governs when a limited licensee makes a sale in violation of some restrictive provision of his license, *e. g.*, a sale for a use not permitted by the license. See *General Talking Pictures Corp.* v. *Western Electric Co.*, 304 U. S. 175, 181, 305 U. S. 124, 127.

Certain restrictive conditions contained in license agreements may be illegal depending upon whether they are reasonable and necessary to the protection of the patentee's interests and whether they conflict with applicable statutes. Since here we are arguing that the restrictive provisions in appellant's refiner and jobber licenses are illegal quite apart from any question of reasonableness, the discussion of decisions dealing with the reasonableness of restrictive provisions is deferred to that section of the brief (*infra* pages 70–91) where it is shown that appellant's restrictive conditions are not reasonable.

A. APPELLANT'S PATENT CONTROL ENDED WITH THE SALE OF THE PATENTED FLUID.

Appellant has chosen a particular method of exploiting its patent rights. It manufactures and sells the patented fluid. When it receives the price for the fluid it has received all of the financial reward which it collects or claims from the exploitation of its patent rights. Having made this choice, appellant is subject to the fundamental rule laid down by this Court in *Adams* v. *Burke*, 17 Wall. 453, and thereafter frequently applied. The Court there said (page 456):

> But, in the essential nature of things, when the patentee, or the person having his rights, sells a machine or instrument whose sole value is in its use, he receives the consideration for its use and he parts with the right to restrict that use. The article, in the language of the court, passes without the limit of the monopoly. *Bloomer* v. *McQuewan*, 14 Howard, 549; *Mitchell* v. *Hawley*, 16 Wallace, 544. That is to say, the patentee or his assignee having in the act of sale received all the royalty or consideration which he claims for the use of his invention in that particular machine or instrument, it is open to the use of the purchaser without further restriction on account of the monopoly of the patentees.

In that case the plaintiff's predecessor in interest had assigned to a coffin manufacturer all of his

rights in a patent which covered the making, use, and vending of coffin lids, but the assignment was limited to an area within a radius of 10 miles around Boston. The assignee made and sold a coffin lid within the area to the defendant who used the coffin lid outside the area. The plaintiff sued the defendant for infringement of the patent. The Court held that a plea setting up the facts as to the sale was good and that the suit should be dismissed.

In *Hobbie* v. *Jennison,* 149 U. S. 355, the assignee of a patent for the State of Michigan, made and sold the patented articles in Michigan to a person who he knew intended to use them in the State of Connecticut. The plaintiff, the owner of the patent for the State of Connecticut, sued the defendant for infringement. This Court held that the knowledge of the defendant was immaterial and that he could not be sued for infringement.

In each of these cases, this Court regarded the sale as destroying the privilege of the patentee thereafter to control the use of the patented article. The importance which this Court attached to the act of sale is emphasized if we consider the terms of the assignment made in each case. Under the assignment, the assignee had the right to make, vend, and use the patented article within the prescribed territory. He clearly had no personal right to use the patented article outside the prescribed area. Nevertheless, this Court held that by

the mere act of sale, he created in the vendee a right of use which the assignee himself never possessed.

These cases clearly establish that once a patented article is sold the patentee's power of control is gone. That is what occurs in the case at bar when appellant sells its patented fluid to refiners. At that point, appellant has received all of the pecuniary reward which it seeks for the use of its patents. Appellant suggests that if it can control the use and marketing of motor fuel made with the patented fluid, it may thereby receive some indirect financial benefit. Even if we indulge in this assumption, the law does not permit control after sale, or recognize indirect financial benefits resulting from that control as falling within the scope of the patent privilege. In every case where the patentee attempts to control the use of the patented article after sale, he doubtless does so because he believes that some pecuniary advantage will result. But this Court has never permitted the patent privilege to be extended by reliance upon the expectation of such indirect financial benefits.[25] Appellant having sold its patented product at a price

[25] In a case where the patentee seeks to control the resale price of patented articles which he has sold, it is obvious that the financial benefits which he expects may be direct and substantial. Nevertheless, this Court does not permit the expectation of those benefits to nullify the legal effect of the initial sale. See *Straus* v. *Victor Talking Machine Co.*, 243 U. S. 490; *Bauer* v. *O'Donnell*, 229 U. S. 1.

satisfactory to itself, "the public is entitled to whatever advantage may be derived from competition in the subsequent traffic." *Dr. Miles Medical Co. v. Park & Sons Co.*, 220 U. S. 373, 409.

By the act of sale, appellant exploited its patents and received its financial reward; it cannot justify its attempts to control the subsequent use and marketing of motor fuel by reliance upon its patent privilege. Appellant apparently recognizes the necessity of avoiding the application of this rule. It seeks to do so by pointing to its so-called "product or mixing" patent and to its so-called "process or use" patent, and by suggesting that even though it has sold the patented fluid, it retains, by reason of these patents, the power to control the subsequent use and marketing of motor fuel. To appraise this argument, it is desirable to refer briefly to the claims contained in these patents.

A typical claim of the mixing patent is for "A fuel for internal-combustion engines comprising a low compression motor fuel, and an oil-soluble volatile compound of a metal adapted to increase the critical compression pressure of the motor fuel" (R. 77, Claim 2). A typical claim of the use patent reads as follows: "A method of utilizing a low compression motor fuel which comprises forming a combustible mixture of the fuel and air, and burning the mixture under a relatively high compression in the presence of vapors of a compounded metallic element" (R. 84, Claim 1).

It is unnecessary to discuss the validity or even the value of these patents. If they contain any fundamental novelty, it relates solely to the use of the patented fluid. Whatever commercial value these patents may have arises from the use of the patented fluid. This is shown by appellant's method of doing business. It gets no direct financial return whatsoever from the mixing and use patents. So long as it remains in the business of manufacturing and selling the patented fluid it can hardly expect to collect any income from purchasers of the fluid by reliance upon the mixing and use patents; the fluid being useful only for the manufacture of motor fuel, no market for it would exist unless the purchasers were assured that they could use it for the only purpose it will serve.

Appellant suggests in its brief that it is necessary for it to license jobbers under the mixing and use patents because otherwise they would not be authorized to handle lead-treated gasoline, and their handling and sale of such gasoline would be an infringement of those patents. As an excuse for licensing jobbers this suggestion is without substance. Since the patented fluid can be used only for the manufacture of motor fuels, and since it is sold to the refiners for that purpose and with the intention that it shall be so used, that sale would carry with it the implied right, on the part of the refiners, to manufacture and sell motor fuel without an express license under the mixing and use pat-

ents. The sale of the motor fuel by the refiners to the jobbers would likewise carry with it the right to use and sell the motor fuel without an express license under the mixing and use patents. See *Leitch Mfg. Co.* v. *Barber Co.*, 302 U. S. 458, 461; *Radio Corporation of America* v. *Andrea*, 79 F. (2d) 626, 629 (C. C. A. 2d); and *Edison Electric Light Co.* v. *Peninsula Light, Power & H. Co.*, 101 Fed. 831, 836–837 (C. C. A. 6th). The asserted necessity for issuing royalty-free licenses to jobbers arises not because of the requirements of the patent law but because appellant is attempting by this method to extend and enforce its patent privilege far beyond the proper limits.

When appellant sells the patented fluid it sells the important element it has contributed to the art. When it receives the purchase price it has, to paraphrase the words of this Court in *Adams* v. *Burke*, 17 Wall. 453, 456, received all the royalty or consideration which it claims for the use of its invention. The value of the so-called "mixing and use" patents consists entirely in their potency as instruments for controlling the subsequent use and marketing of motor fuel. The use of the patent privilege for this purpose is improper and contrary to the principles which this Court has consistently applied to reconcile that privilege with broad considerations of public policy.

It is of no consequence that appellant has sought to obscure the real effect of the transaction here

involved by reliance upon the mixing and use patents and by resort to so-called "license agreements." This Court will "look through the words and forms," with which the appellant "has most elaborately enveloped its purpose, to the substance and realities of the transaction." *Straus* v. *Victor Talking Machine Co.*, 243 U. S. 490, 498.[26] In that case the execution of "license agreements", the description of the consideration for the transfer of a patented article as a "royalty" rather than as "purchase price", and the use of "license notices" specifying the terms on which the patented article might be used did not prevent this Court from penetrating to the substance of the transaction and holding it to be a sale and not a license.

B. THE JOBBER LICENSES ARE UNENFORCEABLE BECAUSE THEY ARE AN ATTEMPT TO CONTROL SUBJECT MATTER WHICH LIES OUTSIDE THE SCOPE OF THE PATENT PRIVILEGE

Appellant assumes that the legality of its licensing scheme must be measured by the rules applicable to patent licensing arrangements rather than by the rules applying to sales of patented articles. This assumption is erroneous; we have shown above that under the decisions of this Court when appellant sells the patented fluid it receives the full pe-

[26] This Court there said (243 U. S., at pages 500–501):

> Courts would be perversely blind if they failed to look through such an attempt as this "License Notice" thus plainly is to sell property for a full price, and yet to place restraints upon its further alienation, such as have been hateful to the law from Lord Coke's day to ours, because obnoxious to the public interest.

cuniary consideration for the exploitation of its patent rights and its patent privilege is exhausted. But even if we apply the rules relating to licensing agreements, appellant cannot prevail in this cause. The decisions of this Court which prescribe the nature of the restrictive provisions which may properly be put in such agreements establish the illegality of appellant's conduct.

If the gasoline whose use and sale appellant seeks to control by its mixing and use patents possesses any patentable peculiarity, that characteristic results from the presence in the gasoline of an infinitesimally small portion of the patented fluid which the appellant has voluntarily sold for a valuable consideration. The control which the appellant attempts to exert over the marketing of this gasoline is not casual or intermittent. It is deliberate and detailed and is contrived to subject to appellant's dictation the marketing of 85 per cent of all high grade gasoline sold in the United States. This employment of the mixing and use patents runs afoul of the well-settled rule that the patent privilege cannot be used to maintain or establish the patentee's control over subject matter which lies outside the legal scope of that privilege, even though included within the claims made in the patent. *Motion Picture Co.* v. *Universal Film Co.*, 243 U. S. 502; *Carbice Corp.* v. *Am. Patents Corp.*, 283 U. S. 27; *Leitch Mfg. Co.* v. *Barber Co.*, 302 U. S. 458; *American Lecithin Co.* v. *Warfield Co.*, 105 F. (2d) 207 (C. C. A. 7th); *Philad*

Co. v. *Lechler Laboratories, Inc.*, 107 F. (2d) 747 (C. C. A. 2nd), certiorari denied November 13, 1939, 60 S. Ct. 175; *Slayter & Co.* v. *Stebbins-Anderson Co., Inc., et al.*, Civil No. 21, United States District Court for the District of Maryland, decided January 1940 (unreported).

Appellant tries to distinguish these cases by pointing out that they involved attempts by the patentee to control unpatented materials, and by arguing that since appellant has patents on both the fuel and the fluid, it is not attempting to control the use of an unpatented material. This argument takes too narrow a view of the basic rule laid down by these decisions. They establish that an attempt to use the patent privilege for an improper purpose vitiates rights which might otherwise have existed. The rule is not confined to cases in which the patentee seeks to control unpatented materials. It applies to every attempt to use a patent to obtain control over matters outside the scope of the patent privilege.

The facts in *Carbice Corp.* v. *Am. Patents Corp.*, 283 U. S. 27, are significant in this connection. In that case the American Patents Corporation and the Dry Ice Corporation, its exclusive licensee, brought suit to enjoin contributory infringement by the Carbice Company and to obtain an accounting of profits and damages. The patent relied upon covered a transportation package consisting of a protective casing of insulating material having packed therein a quantity of

frozen carbon dioxide in an insulated container and a quantity of freezable product in proximity to the frozen carbon dioxide. The sole business of the Dry Ice Corporation was the manufacture of solid carbon dioxide, which was not a patentable article. It did not issue to others licenses to use the package covered by the patent upon payment of a royalty. The Dry Ice Corporation did not formally license purchasers of its carbon dioxide, but the Court assumed that each purchaser was granted a license by implication. The Carbice Corporation manufactured and sold carbon dioxide with knowledge that it was to be used in transportation packages covered by the patent. This Court held that the Carbice Corporation was not guilty of contributory infringement because the Dry Ice Corporation was attempting, without the sanction of law, to secure a limited monopoly of unpatented material used in applying the invention.

The decision establishes the broad proposition that if a patentee attempts to use his patent for an improper purpose, he cannot, to effectuate that purpose, sue persons for infringement who in the absence of the improper purpose might be liable. The decision has recently been so construed by the Circuit Court of Appeals for the Seventh Circuit. *American Lecithin Co.* v. *Warfield Co.*, 105 F. (2d) 207.[27]

[27] This case involved a suit for direct infringement of a method patent covering the use of lecithin (an unpatented material) in the production of chocolate. The plaintiff, the patentee, did not manufacture chocolate or issue licenses

The analogy between the *Carbice* case and the case at bar is close. Here, as in that case, appellant does not issue licenses under its mixing and use patents upon payment of a stipulated royalty. The combination patent which the Dry Ice Corporation sought to enforce was strikingly similar to the mixing patent upon which appellant relies. Both cases involve an attempt to use a patent for a collateral purpose. In the *Carbice* case the purpose was to control an unpatented commodity; in this case appellant seeks to control the greater part of the gasoline market in the United States.

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to manufacturers upon payment of a royalty. Instead, plaintiff sold lecithin to chocolate manufacturers. Anyone buying lecithin was entitled to practice the invention by implied license. The defendant, a manufacturer, was a former customer of the plaintiff. The defendant purchased lecithin from the plaintiff's competitors and used it in accordance with the method covered by the patent. The Circuit Court of Appeals held that the plaintiff could not sue for infringement because it was attempting to use the patent to suppress competition in the sale of lecithin. The Court said (page 212):

> Thus, in the instant case, it is obvious that the sole protection sought by the patentee was of a limited monopoly for its unpatented lecithin: It did not try to obtain any income from the monopoly expressly granted by the patent itself, either by practicing the patented method or by granting licenses for a royalty. For this reason, a different light is shed upon the rights of the patentee, and for this reason relief is denied the patentee. The courts are vigilant that the patent owner shall control the invention claimed in the patent and no more. The plaintiff's method of doing business had only one purpose, the doing by indirection what was prohibited directly, *i. e.*, the securing of a monopoly in the sale of lecithin, a commodity not coming within the boundaries of the patent owned by the plaintiff. This action the courts will not sanction.

The objective here is as improper as the objective in the *Carbice* case. It is significant that in the *Carbice* case the Court said that the attempt there forbidden was "analogous to the use of a patent as an instrument for restraining commerce, which was condemned under the Sherman anti-trust law, in *Standard Sanitary Mfg. Co.* v. *United States*, 226 U. S. 20." We submit that the analogy is controlling here because appellant is seeking to use its mixing or combination patent to subject to its domination every jobber in the United States who wishes to deal in lead-treated gasoline.

Appellant is in no better case if it relies upon its use or process patent. In *Leitch Mfg. Co.* v. *Barber Co.*, 302 U. S. 458, the patentee attempted to use a process patent to obtain a monopoly [of an unpatented commodity. This Court held] that the rule against this use of a patent "applies whether the patent be for a machine, a product, or a process" (302 U. S. 458, 463), and accordingly refused to permit the patentee to sue for contributory infringement.[28]

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[28] The Barber Company had a patent which covered a process for using bituminous emulsion (an unpatented article) as a film on the surface of a roadway to retard evaporation during curing. It did not engage in road building and did not seek to make road builders pay a royalty for employing the patented method. It did not grant written licenses to use the process. Any road builder, however, could buy emulsion from it, and whenever such a sale was made the law implied authority to use the invention. The Leitch Manufacturing Company sold bituminous emulsion to a road builder knowing that it was to be used in accordance with

The decision in *Motion Picture Co.* v. *Universal Film Co.*, 243 U. S. 502, is significant because it shows that the rule under discussion goes deeper than merely to prohibit the use of a patent to control unpatented materials, although that point was also involved in the case. In that case the plaintiff owned patents covering a mechanism used in motion picture exhibiting machines. The mechanism was the only one with which motion-picture films could be used successfully. The plaintiff granted a license which permitted the licensee to manufacture and sell machines embodying the invention claimed in the patents but which required the licensee to sell the machines upon condition that they be used only with films specified by the plaintiff and upon other terms to be fixed by the plaintiff. A purchaser of the patented machine used

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a method defined in the claims of the patent held by the Barber Company. The Barber Company sued the Leitch Company for contributory infringement. The Court held that there was no infringement.

It should be noted that inasmuch as the person to whom the Leitch Company sold the bituminous emulsion did not buy that commodity from the Barber Company, no license on his part to use the process could be implied. The conclusion to be drawn from the decision is that since the Barber Company had chosen to make its business the selling of bituminous emulsion, it could not use its process patent to obtain a limited monopoly of that commodity, nor could it in those circumstances use the patent to prevent others from employing the process covered by the patent. The same rule would have applied if the suit had been for direct infringement. *Motion Picture Co.* v. *Universal Film Co.*, 243 U. S. 502; *American Lecithin Co.* v. *Warfield Co.*, 105 F. (2d) 207 (C. C. A. 7th).

films not specified by the license. The plaintiff sued him for direct infringement and the person who supplied the films for contributory infringement. This Court held that the suit could not be maintained.

The case involved another point, however, which is of particular interest here. The licensee agreed to pay a royalty on each machine sold. One of the other conditions which the plaintiff imposed on purchasers from the licensee was that each purchaser should also pay an additional charge graduated by the size of the theatre in which the machine was to be used. The user of the machine refused to pay this additional charge and this act was charged as an infringement of the patent. This court held that the provision requiring the payment of the added charge was invalid, saying (243 U. S. at page 519):

> A restriction which would give to the plaintiff such a potential power for evil over an industry which must be recognized as an important element in the amusement life of the nation, under the conclusions we have stated in this opinion, is plainly void, because wholly without the scope and purpose of our patent laws and because, if sustained, it would be gravely injurious to that public interest, which we have seen is more a favorite of the law than is the promotion of private fortunes.

The restriction thus invalidated had nothing to do with unpatented materials. It was a restriction designed to permit the patentee to extend his con-

trol over the market to an extent which the Court regarded as improper. We submit that the same reasons which led this Court to strike down that restriction require the judicial destruction of appellant's licensing system. To paraphrase the language of the Court in that case, appellant's licensing system gives appellant such a potential power for evil over the industry that it is plainly void because wholly without the scope and purpose of the patent laws and because if sustained it would be gravely injurious to the public interest.

The arguments which appellant advances in defense of its licensing system, and particularly those arguments which stem from the mixing and use patents, are highly formalistic and artificial. They ignore or minimize the basic conceptions as to the scope of the patent privilege and the public interest which underlie the decisions of this Court. Appellant has made one important and novel contribution to the art, that is, the invention of the fluid for use as an ingredient in motor fuel. It has obtained not one patent on this contribution but four. It has reserved to itself a monopoly of the manufacture of the patented fluid and it derives all of its revenue from the sale of the fluid. At the same time, by an astute division of patent rights, it has attempted to control the subsequent use of that fluid and the marketing of the motor fuel in which the patented fluid is a minute ingredient. The right to exert this domination is asserted in terms which, if accepted, would justify control of the fuel not merely

in the hands of the jobbers but all of the way down the line of distribution to, and including, the ultimate consumer. Moreover, the only limitation admitted on this exercise of power is appellant's own "reasonable business judgment."

It is doubtful if any of the limitations which this Court has imposed upon the patent privilege in the interest of preserving a free market and discouraging burdensome restraints on the alienation of chattels could long survive acquiescence in appellant's argument. To evade those limitations it would only be necessary for a patentee to be astute enough in subdividing the elements of his invention and the patents relating thereto. That kind of subdivision is by no means difficult. On the contrary, the complexity of modern technological process and the ingenuity of counsel combine to make it easy. Indeed, the facility with which a variety of patents can be obtained on what is essentially a single invention is one of the frequent causes of complaint against the present state of the patent law.[29]

Having subdivided its patents, precisely as the appellant has done here, the patentee could then,

[29] See the testimony before the Temporary National Economic Committee. *Hearings before the Temporary National Economic Committee*, Part 2, *Patents, Automobile Industry and Glass Container Industry*, pages 279, 342, 369–370. One witness testified that approximately twenty-five patents had been issued on four screws which differed only as to the shape of the slot in the head (page 369).

despite a sale of the invention or of any one of its essential elements, control the marketing and use of the patented article from the factory door to the hands of the ultimate consumer. Reference to the decided cases will show how illusory the limitations upon the patent privilege would then become. For example, let us consider the facts involved in *Adams* v. *Burke*, 17 Wall. 453. In such a situation the patentee could sell the patented lid, at the same time retain a patent on the use of the patented lid with a coffin,[39] insist upon licensing all subsequent users under that patent, and thus, despite the sale, retain control of the subsequent use of the lid and the coffin.

By similar tactics it would be easy to evade the prohibition against selling the patented article and at the same time controlling the prices at which subsequent sales are to be made. This may be illustrated by considering the situation in *Straus* v. *Victor Talking Machine Co.*, 243 U. S. 490. In such a case it would only be necessary for the manufacturer of the gramophone to obtain one patent on the machine and another patent on the process of using the machine with unpatented records to reproduce sound. (The latter patent would be closely analogous to the so-called "use" patent in this case.) Accepting appellant's arguments, the patentee could then sell the gramophone and at the same time control its subsequent use and the price at

[39] This would be similar to appellant's mixing patent.

which it might be resold by reliance upon licenses issued under the use patent.[31] If this is the law, the doctrine laid down in *Straus* v. *Victor Talking Machine Co.*, 243 U. S. 490, has little vitality.

How far the patentee could go in extending his power over subject matter not properly within the scope of the patent privilege is shown by the facts in the instant case. Here appellant maintains a monopoly of the manufacture and sale of the patented fluid. It insists that after it has sold the patented fluid and received full compensation therefor, it can control on a nation-wide basis the subsequent marketing of the motor fuel made with the fluid. And this claim is made despite the fact that the principal ingredient of the fuel is gasoline, a commodity which lies in the public domain and over which no patent rights can be claimed by appellant or anyone else.

In effect, appellant is asking this Court to relax the restrictions which limit the exercise of the patent privilege. Modern economic and technological conditions supply no justification for this request. On the contrary, as the courts face new problems created by the complexities of the

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[31] It is assumed, of course, that the price restrictions contained in the license agreement would have to meet the test laid down in *United States* v. *General Electric Co.*, 272 U. S. 476. If we accept appellant's view that the standard to be applied in making these tests is the "reasonable business judgment" of the patentee, those tests are not likely to have a particularly astringent effect.

patent law and of modern industrial processes, the need is to tighten and to increase the restrictions on the patent privilege and not to relax them. Certainly a need exists to curtail the rights of a patentee to insert in license agreements restrictive provisions which run against the world.[32] Appellant's plea for indulgence in this case derives no substantial support from precedent, logic, or considerations of public policy. It is immaterial whether appellant is regarded as a patentee who has sold the patented article and thereby exhausted his privilege or as one who by restrictive conditions in the license agreement has attempted to extend his domination over subject matter not within the scope of the patent. On either view of the case the licensing scheme is illegal.

III

APPELLANT'S LICENSING PLAN IS NOT A REASONABLE OR PROPER EXERCISE OF THE PATENT PRIVILEGE

We have pointed out that appellant's licensing plan directly and substantially restrains trade

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[32] See the dissenting opinions in *General Talking Pictures Corp.* v. *Western Electric Co.*, 304 U. S. 175, 183–190; 305 U. S. 124, 128–133. It is significant that the Temporary National Economic Committee, which has been studying the patent problem, approved "for immediate action by Congress" certain recommendations of the Department of Justice for changes in the law which would drastically curtail the right to place restrictive provisions in license agreements. *Verbatim Record of the Proceedings of the Temporary National Economic Committee*, Vol. 4, pages 641–642 (The Bureau of National Affairs, Inc.).

(*supra* pages 33–46). In Point II we have argued that the plan cannot be justified as an exercise of the patent privilege because appellant's patent control ceases when it sells the patented fluid. If this argument is sound, no question arises as to whether appellant has abused its privilege. The licensing plan is bad because the privilege which is asserted to support it simply does not exist after the sale of the patented fluid. Appellee, however, does not rely upon this ground alone. Even if we concede for the sake of argument that the issue is, as appellant insists, abuse of power and not lack of power, appellant cannot prevail. Its licensing system is not a reasonable or proper exercise of the patent privilege. On the contrary, it is arbitrary, unreasonable, and unnecessary to the accomplishment of any legitimate object.

In *United States* v. *General Electric Co.*, 272 U. S. 476, this Court laid down the general principles which determine whether restrictive conditions contained in a license agreement are a reasonable and proper exercise of the patent privilege. In that case the Court said that the patentee can grant a license "upon any condition the performance of which is reasonably within the reward which the patentee by the grant of the patent is entitled to secure."[33] It also said that if the patentee chooses

[33] 272 U. S. at page 489. In that case this Court held that it was not a violation of the antitrust laws for the owner of basic patents on incandescent lamps which itself engaged in the manufacture and sale of lamps, to fix the price at which

to attach conditions to a license to sell the patented article, the conditions must be "normally and reasonably adapted to secure pecuniary reward for the patentee's monopoly." [34]

In attempting to meet the tests thus established by the Court, appellant proceeds under one fundamental misunderstanding which colors all of its arguments. A typical statement of this misconception is found on page 60 of appellant's brief. There, in discussing the jobber licenses, appellant asserts:

> Even assuming that the court may at all question their necessity, we submit it is an unwarranted judicial encroachment for the court to throw out the patentee's judgment and experience and substitute its own.

Apparently appellant believes that the question as to whether particular restrictive conditions are reasonably within the patent grant is one which is committed primarily to the judgment of the patentee, and that if the courts have any power of review whatsoever, their power is limited to determining whether the judgment of the patentee is so

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a licensed manufacturer could sell lamps made under the patents. In an appropriate case the government may ask this Court to reconsider its holding in the *General Electric* case in the light of modern economic and technological conditions. But in the present case the patentee's effort to control the entire marketing of motor fuel is so clearly illegal even under the *General Electric* case that there is no necessity to reconsider the doctrine there announced.

[34] 272 U. S. at page 490.

without rational foundation as to be arbitrary and capricious. The patent privilege is created in the exercise of the constitutional power to promote the progress of science and the useful arts. It is by this standard that the limits of the patent privilege must be tested. *Kendall et al.* v. *Winsor*, 21 How. 322, 327–328; *Motion Picture Co.* v. *Universal Film Co.*, 243 U. S. 502, 510–511. Appellant's argument is nothing less than an attempt to substitute for this constitutional standard the indefinite guide supplied by the enlightened self-interest of the patentee.

As an instrument for defining limitations on the scope of the patent privilege, such a guide would be illusory. There are few, if any, exercises of the patent privilege which cannot be justified as exercises of the patentee's business judgment. Indeed, if the patentee did not believe that a particular exercise of his patent was reasonable and properly within the scope of his grant, it may be assumed that he would not engage in it. To accept this subjective standard, or even to apply it to a limited or qualified extent, would eat away the restrictions which, in the public interest, this Court has placed upon the exercise of the patent privilege.

When each of the excuses which appellant offers in defense of its licensing scheme is tested by the objective standard of reasonableness which must be applied, it appears, as will now be shown, that the terms and conditions of the licensing plan are

not normally and reasonably adapted to secure objects which are within the patent privilege.

One characteristic is common to all of the reasons which appellant advances for the existence of its licensing plan. Not one of those reasons bears any direct relation to the protection of appellant's patent rights or to the pecuniary reward which appellant seeks from its patents. They relate either to the public health, which is a matter of public and not private concern, or to marketing practices in the sale of gasoline, a product which appellant does not manufacture or sell. The task which appellant has set for itself is to establish between its patent privilege and these remote and collateral objects some connection or relationship which the law will recognize. This task appellant has not performed.

A. APPELLANT'S LICENSING SCHEME CANNOT BE JUSTIFIED AS A MEASURE NECESSARY TO PROTECT PUBLIC HEALTH

Much of appellant's brief is devoted to a defense of the licensing scheme on the ground that it is necessary to protect the public against dangers which it is asserted, may arise from the handling of lead-treated gasoline. An examination of the record shows that there is no factual basis for this argument. It is true that there are hazards involved in handling the patented fluid. But the jobbers, whom appellant insists it must control in the interests of public health, handle lead-treated gasoline, not fluid. Appellant agrees that no authentic case of lead poisoning or other injury to

health from gasoline containing the fluid has ever been discovered which could in any way be attributed to the presence of the fluid (R. 32). The executives and experts employed by appellant have concluded, after 14 years of exhaustive research, that gasoline containing the patented fluid is no more dangerous to health than any other gasoline when used as motor fuel (R. 32). The committee appointed by the Surgeon General of the United States in 1925 to study the problems involved in the distribution and use of lead-treated gasoline concluded that there was no evidence of harmful effects resulting from the handling or use of motor fuel treated with the patented fluid (R. 29-30).

Appellant attempts to dismiss these facts by suggesting that the restrictive provisions in the jobber licenses have prevented health hazards from arising from the use of lead-treated gasoline. Consideration of the specific restrictive provisions which appellant insists must be enforced if public health is to be preserved shows this suggestion to be without merit. Those provisions require the jobber (1) to distribute printed material relating to the use of lead-treated gasoline (R. 125, 135, 140) and (2) to affix signs to the gasoline pumps containing lead-treated gasoline (R. 31). There is no evidence that the jobbers ever distributed any of the printed material. The signs which appellant insists are imperative if the public health is to be protected merely recite that the motor fuel

contains lead and that it should be used as motor fuel only, and not for cleaning or any other purpose (R. 141, 142). A health problem which can be effectively dealt with by the posting of such signs is wholly chimerical. Certainly this fancied danger offers no excuse for appellant's attempt to dominate and control the marketing of all lead-treated motor fuel in the United States.

That the protection of the public health is not the real reason for appellant's licensing scheme is indicated by its practices. For example, when a jobber applies for a license he is investigated by a field representative of appellant. These representatives report upon their investigations on certain forms. The form contains 22 questions exclusive of the name and address of the applicant. A number of these questions have several parts (R. 143, 144). Of the questions only two could conceivably have any relation whatsoever to the health problem and those merely require that the report indicate whether the conditions of the pump markings are good or poor. It is highly doubtful whether these questions refer to the health problem. They ask for a report on the condition of ethyl pump markings and "Q" pump markings. Since the lead-warning signs are the same for both grades of gasoline and may be used interchangeably (R. 31–32), it seems more likely that these questions are designed to elicit information as to signs which announce brand names and prices. There is no blank on the report for information as to whether the

jobber distributes printed leaflets relating to the health problem (R. 143–144).

Even more significant is appellant's so-called *"Field Representative Manual"* which instructs its field representatives as to the procedure to be followed in investigating jobbers and the retailers to whom the jobbers sell. Although there are ambiguous references in this manual to the markings on gasoline pumps, there are no detailed instructions with respect to investigating the health problem or to attempting to determine whether the signs are adequate to deal with that problem, nor is there any reference to the distribution of the printed leaflets (R. 145–187). Furthermore, the field manual contains a short statement of the history and purpose of the jobber license agreements. In this statement there is no suggestion whatsoever that appellant adopted the plan of issuing licenses to jobbers in order to enforce the health regulations or to protect the public health (R. 164–165).

However, if it is assumed that in some small measure there is a problem as to the health and safety of persons who come in contact with lead-treated motor fuel, the existence of that limited problem does not excuse the establishment by appellant of a licensing system in restraint of trade. No matter what motives may prompt appellant, the restraint must be justified within the strict limitations which have been imposed by the courts. To justify appellant's licensing system in the

name of health, nothing less than an overwhelming public necessity will suffice. No such showing has been made here. It is not to be assumed that in the absence of appellant's licensing scheme refiners, jobbers, or retailers would be so reckless and indifferent to the public health that they would fail to take whatever elementary precautions are necessary to guard against any hazards which might conceivably result from the handling of lead-treated gasoline.

B. APPELLANT CANNOT DEFEND THE LICENSING SCHEME ON THE GROUND THAT IT IS NECESSARY TO PREVENT ADULTERATION AND DILUTION OF THE MOTOR FUEL

The alleged danger of adulteration and dilution of motor fuel is no justification for appellant's licensing scheme. Dilution or adulteration of regular gasoline (which constitutes 94 percent of all motor fuel treated with patented fluid) occurs to only a small degree (R. 26, 34), but there have been instances of dilution and deterioration of ethyl gasoline sold to the public (R. 34–35).

The highly fictitious character of appellant's professed fear of dilution and adulteration is apparent from the fact that the refiner license agreements do not require the refiners to maintain any minimum octane rating so far as regular gasoline is concerned (R. 34). Both regular and ethyl gasoline are lead-treated. Whatever interest appellant has in maintaining the quality of lead-treated motor fuel must operate with as much force in the case of regular gasoline as it does in the case of ethyl. So far as quantity is concerned, the in-

terest of appellant in maintaining the quality of regular gasoline should be greater because it constitutes 94 percent of all lead-treated gasoline sold. Despite these facts, appellant apparently has so little fear of adulteration and dilution that it does not even take the elementary precautionary step of requiring refiners to maintain a minimum octane rating for regular gasoline.

In appraising appellant's arguments as to dilution, it should be remembered that appellant is engaged in the business of selling the patented fluid and that its revenue consists entirely of the proceeds of those sales. If adulteration or dilution is to affect adversely the financial interests of appellant, it must first operate through the refiners and cause them to decrease or discontinue purchases of the patented fluid. Any financial loss suffered solely by a refiner as a result of adulteration or dilution is a danger which does not concern appellant and which cannot justify its licensing system. See *Dr. Miles Medical Co. v. Park & Sons Co.*, 220 U. S. 373, 407.

The first impact of adulteration or dilution would be on the particular refiner whose gasoline had been diluted or adulterated. It may be inferred that he would be quick to take corrective steps. It is stipulated that "When dilution or adulteration of regular gasoline has been discovered, it has ordinarily been necessary only to report the matter to the refiner whose gasoline was involved, in view of the refiner's interest in maintain-

ing the quality of his product" (R. 34). No mention is made of what was done in cases of adulteration of ethyl gasoline, but it is obvious that the same remedy would be equally efficacious in such instances. Indeed, inasmuch as the ethyl gasoline is a high-priced product which must maintain a high quality if it is to keep its place in the market, the motive of the refiner for preventing and punishing adulteration and dilution may properly be assumed to be greater in the case of ethyl gasoline than in the case of regular gasoline.

Furthermore, as to both the regular and the ethyl gasoline, it is the refiner who has the direct and substantial interest in preventing dilution and adulteration. By far the greater part of the gasoline is sold under his brand name. It is his sales which will suffer and his financial returns which will be cut down if his gasoline obtains a reputation in the market for being of an inferior quality. This is particularly true because the largest ingredient of the motor fuel which the refiner sells is his own gasoline. If the gasoline acquires the reputation of being of inferior quality, this reputation is more likely to affect the refiner's reputation as a manufacturer than it is appellant. The fact that each gallon of the motor fuel contains an infinitesimal portion of the patented fluid does not dampen the desire of the refiner to maintain the high quality of his product and to prevent dilution and adulteration.

There is no evidence to support the contention that if the gasoline of a particular refiner is adulterated or diluted the necessary or probable effect would be to decrease the total sales of patented fluid by appellant. Presumably that refiner would lose part of his market to other refiners whose gasoline was not adulterated or diluted. Their purchases of the patented fluid from appellant would correspondingly increase and compensate for any decrease in the amount purchased by the refiner whose gasoline had been diluted or adulterated. At the best, appellant's financial interest in preventing adulteration and dilution is remote and the connection between that interest and the threatened danger tenuous.

C. APPELLANT CANNOT DEFEND THE LICENSING SCHEME BY RELIANCE UPON ITS TRADE-MARK

In attempting to justify its licensing system, appellant refers vaguely to rights incidental to its ownership of the trade-mark (appellant's brief, pp. 58–59). At the outset it should be noted that this claim is applicable only to the so-called "ethyl gasoline" which constitutes about 6 percent of the total lead-treated motor fuel which appellant endeavors to control by its licensing system (R. 26).

The refiner and jobber licenses issued by appellant expressly forbid the use of the trade-mark in connection with regular gasoline (94 percent of all lead-treated motor fuel) but require that the trade-mark be used in connection with all ethyl gasoline (R. 105, 115). Obviously, any need for preventing

the use of the trade-mark on regular gasoline is adequately protected by the trade-mark laws. Likewise, prevention of the use of the trade-mark on gasoline not conforming to the specifications for motor fuel to which the trade-mark is applicable can be accomplished through those same laws. Neither purpose requires the use of a licensing system and neither purpose justifies the licensing scheme devised by appellant.

In so far as the small amount of allegedly trade-marked gasoline is involved in this suit, appellant has sought to compel the licensees to affix the trade-mark to that gasoline. Having thus forced the trade-mark upon the licensees, appellant now asserts the right to protect that trade-mark by the very means used to coerce its use. Thus the licensing system destroys freedom to deal in so-called "ethyl gasoline," either with or without the trade name and trade-mark attached to it. This scheme cannot be excused as an effort to protect the value of the trade-mark.

Appellant cites *Coca-Cola Co.* v. *Bennett,* 238 Fed. 513 (C. C. A. 8th), and *Coca-Cola* v. *Butler & Sons,* 229 Fed. 224 (District Court, E. D., Arkansas, W. D.), as supporting its position. Both cases are merely authority for the proposition that where one has a valid trade name he may prevent its unauthorized use by others in suits for infringement. We have no quarrel with that rule. But we believe that those cases and *Coca-Cola Co.* v. *Koke Co.,* 254 U. S. 143, clearly indicate that a

corollary to the rule is that a trade-mark does not sanction interference with dealing in an article that does not bear the trade-mark. In the instant case the licensing scheme is intended to prohibit all dealing in lead-treated gasoline with a certain octane rating unless appellant's trade-mark is used, and then to control that dealing if the trade-mark is used. This kind of a scheme cannot be defended as necessary to protect the trade-mark.

In any event, it is highly doubtful if appellant has a valid trade-mark. The display of the asserted trade-mark on gasoline pumps does not, and is not intended to, denote the origin of the motor fuel, since the motor fuel originates with the various refiners and not with appellant who owns the trade-mark. All that the mark indicates is that one of the ingredients of the fuel is ethyl fluid and that the fuel is of high quality (R. 40–41). Appellant's arguments on this point implicitly recognize that the trade-mark claimed is descriptive of quality and not of origin. Repeatedly in appellant's brief the trade-mark is coupled with the idea of quality and the contention made that the trade-mark must be protected to maintain quality.[35] The rule is established that a trade-mark to be valid must denote the origin of the product and is insufficient if merely descriptive of the product, its qualities, ingredients, or characteristics. *Manufacturing Co.* v. *Trainer*, 101 U. S. 51; *Lawrence M'f'g*

[35] See appellant's brief, pages 52, 53, 58, and 59.

Co. v. *Tennessee M'f'g Co.*, 138 U. S. 537; *Columbia Mill Co.* v. *Alcorn*, 150 U. S. 460. Thus, the trade-mark which appellant claims lacks the very qualities which are essential to its validity.[36]

However, if it be assumed that appellant's trade-mark is valid and entitles appellant to some privileges, those privileges can be no greater than the privileges conferred by the patents which appellant holds. The differences between patents and trade-marks have led the courts to emphasize that the rights accruing from a trade-mark are much more limited and confined than those flowing from a patent. *Bourjois & Co.* v. *Katzel*, 260 U. S. 689; *Dover Stamping Co.* v. *Fellows*, 40 N. E. 105 (Mass. 1895). If appellant cannot justify its activities on the basis of its patent claims, there is no need to consider what the effect of its trade-mark may be.

D. THE USE OF THE LICENSING SYSTEM TO EXCLUDE JOBBERS FROM THE MARKET BECAUSE THEY CUT PRICES IS AN ABUSE OF THE PATENT PRIVILEGE

Appellant admits that it excludes from the market jobbers whom it regards as "notorious price cutters" (appellant's brief, p. 72). It also concedes that the reason it excludes these jobbers is because it wishes to prevent them from depressing the price of lead-treated gasoline. This concession is im-

[36] Even if the trade-mark were valid originally, it may well be that its compulsory use by appellant's licensees has rendered it *publici juris* and deprived appellant of the right even to prevent its use by others without its consent. *Everett O. Fisk & Co.* v. *Fisk Teachers' Agency*, 3 F. (2d) 7.

plicit in appellant's defense of its policy of excluding "price cutters." That defense is that unless the "price cutters" are excluded, they will depress the price to the injury of appellant's interests. Therefore, on appellant's own showing, the exclusion is pointless unless it operates to prevent the kind of competition which lowers prices. It is apparent that the exclusions of jobbers for this purpose are not isolated and infrequent incidents. The exclusions are a part of a systematic plan which appellant contends is necessary to protect its interests. We submit that this is an abuse of the patent privilege. A patentee is not entitled to combine with others to deny access to the market to persons who do not accept his economic theories as to the undesirability of price competition.

It may be true that a trader, acting alone, has the right to select the parties with whom he will deal. *United States* v. *Colgate & Co.*, 250 U. S. 300. But the action of appellant in denying jobbers access to the market cannot be justified under this rule. Here appellant has combined with 123 refiners to close the market completely to any person whose price policy appellant does not approve. This is not an exercise of one trader's independent judgment. It is the kind of combination or organized boycott which this Court has consistently held to be illegal. *Dr. Miles Medical Co.* v. *Park & Sons Co.*, 220 U. S. 373; *United States* v. *Schrader's Son, Inc.*, 252 U. S. 85; *Federal Trade Comm.* v. *Beech-Nut Co.*, 257 U. S. 441.

In *Federal Trade Comm.* v. *Beech-Nut Co.*,[37] 257 U. S. 441, this Court condemned a coercive price-fixing scheme, which was defended, as appellant defends its licensing plan here, on the ground that

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[37] In this case a manufacturer fixed resale prices for its products. It declined to sell its products to jobbers, wholesalers, or retailers who did not observe these prices or who sold to others who failed to do so. It enforced this price maintenance plan by an elaborate espionage system. The operation of the plan was described by this Court in these words (257 U. S. at page 454):

> The system here disclosed necessarily constitutes a scheme which restrains the natural flow of commerce and the freedom of competition in the channels of interstate trade which it has been the purpose of all the anti-trust acts to maintain. In its practical operation it necessarily constrains the trader, if he would have the products of the Beech-Nut Company, to maintain the prices "suggested" by it. If he fails so to do, he is subject to be reported to the company either by special agents, numerous and active in that behalf, or by dealers whose aid is enlisted in maintaining the system and the prices fixed by it. Furthermore, he is enrolled upon a list known as "Undesirable—Price Cutters," to whom goods are not to be sold, and who are only to be reinstated as one whose record is "clear" and to whom sales may be made upon his giving satisfactory assurance that he will not resell the goods of the company except at the prices suggested by it, and will refuse to sell to distributors who do not maintain such prices.

This Court held that the plan violated the Sherman Act and was an unfair method of competition within the meaning of the Federal Trade Commission Act.

Appellant suggests that this case is no longer law because of the Miller-Tydings amendment to the Sherman Act (appellant's brief, p. 64, footnote 36). That amendment permits price maintenance contracts made under appropriate state legislation to apply to goods moving in interstate commerce. It does not apply unless the contracting parties properly rely upon some state legislation. Appellant makes no claim in this case that its licensing system is based upon any state laws.

it was an exercise of the right to select customers. This Court said (pages 452–453):

> * * * it is settled that in prosecutions under the Sherman Act a trader is not guilty of violating its terms who simply refuses to sell to others, and he may withhold his goods from those who will not sell them at the prices which he fixes for their resale. He may not, consistently with the act, go beyond the exercise of this right, and by contracts or combinations, express or implied, unduly hinder or obstruct the free and natural flow of commerce in the channels of interstate trade.

Appellant is in no better position if it attempts to justify its exclusion of price cutters as a proper exercise of the patent privilege. To succeed in this defense appellant must establish that the exclusion is a reasonable and proper method of securing its pecuniary reward under the patents. *United States* v. *General Electric Co.*, 272 U. S. 476. Appellant's reward from the patents consists of the price which it receives for the patented fluid. It therefore becomes necessary for appellant to establish a direct and substantial relationship between the price of the gasoline which it is seeking to control and the proceeds it receives from the sale of the patented fluid. That relationship does not exist.

Appellant attempts to establish this connection by emphasizing the "suspicion and ill will" which is created by price cutters (appellant's brief, p. 67), the "demoralizing potentialities" of undesirable

price competition (*id.* at p. 68) and the necessity of preventing price cutting which will "undermine" the patentee's trade (*id.* at p. 65). These conditions do not affect appellant's trade, which is the manufacture and sale of the patented fluid; they affect trade in gasoline, a product which appellant does not manufacture or sell. The disorderly market conditions which appellant professes to fear would doubtless directly affect the refiners, and the price stabilization which appellant thinks desirable might well be of benefit to the refiners. This is not a legal justification which permits appellant to combine with the refiners and to use its patent privilege for their benefit in the expectation that it, in turn, will receive some indirect advantage.[38]

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[38] The situation in *Dr. Miles Medical Co.* v. *Park & Sons Co.*, 220 U. S. 373, was analogous. There it was argued that a price maintenance scheme indirectly benefited the manufacturer by conferring advantages upon the retailers. The Court, in disposing of this argument, said (pages 407–408):

> The bill asserts the importance of a standard retail price and alleges generally that confusion and damage have resulted from sales at less than the prices fixed. But the advantage of established retail prices primarily concerns the dealers. The enlarged profits which would result from adherence to the established rates would go to them and not to the complainant. It is through the inability of the favored dealers to realize these profits, on account of the described competition, that the complainant works out its alleged injury. If there be an advantage to a manufacturer in the maintenance of fixed retail prices, the question remains whether it is one which he is entitled to secure by agreements restricting the freedom of trade on the part of dealers who own what they sell.

See also *Interstate Circuit* v. *United States*, 306 U. S. 208, 228–230.

Appellant, in its brief, presents *a priori* arguments designed to prove that even though the impact of price competition in the sale of gasoline will first strike the refiners, it will ultimately affect appellant's return from the sale of the patented fluid. Judged even by *a priori* standards these arguments are unsound. They all proceed on the theory that decreases in the price of gasoline will injure appellant's interests. It is well known that the demand for gasoline is elastic and increases when the price goes down. It is as reasonable to conclude that a decrease in the price of gasoline would increase volume and, in turn, increase the sale of the patented fluid and appellant's financial return as it is to accept appellant's prophecies of disaster.

But, in any event, something more substantial than *a priori* reasoning is required to justify a restraint of trade as drastic and far reaching as appellant's licensing system. Under the Sherman Act the owner of a patent cannot superimpose his notions as to the economic undesirability of price competition upon an entire industry. We have seen that even in the case of the patented article he cannot sell the article and then control the price of all subsequent sales though his economic interests may be affected by those sales (see page 50, *supra*). When he grants a license to another to manufacture and sell, there are limits beyond which he cannot go in attempting to control the price of the articles manufactured and sold under the license. This Court has held that if the patentee is engaged in

manufacturing and selling the article, he may fix the price at which his licensee shall sell. *United States* v. *General Electric Co.*, 272 U. S. 476; *Bement* v. *National Harrow Co.*, 186 U. S. 70. But his right to place such restrictive provisions in the license depends entirely upon the fact that the price at which his licensee sells will "necessarily affect the price at which he can sell his own patented goods." *United States* v. *General Electric Co.*, 272 U. S. 476, 490.

The doctrine of that case is not wide enough to accommodate appellant's system. Appellant is attempting to control the price of an article which it does not manufacture or sell. It is attempting to control the price and the marketing of an article after it has left the hands of its licensee. It attempts to enforce this control by licensing under patents for whose use it collects no royalty or license fee. Finally it makes this attack upon free competition in a case where there is no evidence that the price or the marketing it seeks to control can directly and substantially affect appellant's financial return in any way. To sanction appellant's licensing system would be to extend the patentee's rights far beyond the limits marked out by this Court in *United States* v. *General Electric Co.*, 272 U. S. 476.

Appellant seems to distinguish between a policy of refusing to deal with "price cutters" who apply for licenses and a policy of refusing to continue licenses because the licensees cut prices. Appellant

in effect concedes that it could not legally adopt the policy of cancelling existing jobber licenses because of price cutting (appellant's brief, p. 70, footnote 41). This concession is fatal to appellant's argument that its patents entitle it to exclude "price cutters" from the market. There is no valid distinction in fact between refusing a license because the applicant is a "price cutter" and cancelling a license on the same ground. In both cases the purpose is to maintain prices. If, as appellant appears to believe, it cannot cancel a license for price cutting, it must follow that it cannot combine with others to exclude jobbers from the market for the same reason.

Appellant also refers to its desire to maintain its good will and the quality of its product. But the product whose price it is attempting to protect is not its product but that of the refiners. In any event, while these may be commendable objectives they do not enlarge the scope of the patent privilege. Every trader wishes to maintain his good will and the quality of his product, and competitive conditions often make it difficult for him to do so. Nevertheless, he has no right to combine with others to dominate a market and to exclude persons from that market whose competitive practices he regards as undesirable. In this respect the owner of a patent stands on no different footing from any other trader. He may protect his good will and the quality of his product but he must do so by legal methods. Cf. *International Machines Corp.* v. *United States*, 298 U. S. 131, 138–139.

IV

THE DECREE OF THE COURT BELOW IS PROPERLY DESIGNED TO GIVE EFFECTIVE RELIEF AND SHOULD NOT BE MODIFIED

Appellant argues at some length that the decree entered by the court below was too drastic and was not justified by the evils found to exist. In substance, the contention is that some other form of decree could have been drafted which would have accomplished the purpose and would have been more palatable to the appellant.

The District Court's objection to appellant's conduct lay in the fact that appellant had, through agreements with refiners, excluded jobbers from the market. For the reasons set forth at pages 36–46, *supra,* we submit that the scheme was much more far-reaching and was in reality a scheme for maintaining the resale price of gasoline and for compelling the jobbers to comply with the price policies of the major oil companies. In either view the device adopted was the jobber licensing system and that system was the means by which the purpose was accomplished. The licenses issued to refiners specifically provided that lead-treated motor fuel should be sold only to jobbers licensed by appellant. Thus the restrictive agreement came into existence and its successful operation was dependent upon appellant's licensing jobbers. By granting and refusing licenses to jobbers and by exercising the authority which those licenses purported to confer upon it, appellant used the tools of its own forging to dominate and control the marketing

of lead-treated gasoline. By its own admission this scheme was conceived "to ensure that the Ethyl Gasoline Corporation would have some control and part in the sale and distribution of this gasoline" (R. 164). That the jobber licensing system has served the purpose for which it was created is clear from the evidence. So long as the jobber licensing system is in effect, no matter how modified, the opportunity for abuse will be continuous and insistent. Foresight requires that all possibility of continuance along the illegal course should be removed. This can be effectively accomplished only by taking from appellant the means by which the scheme has been carried out, *i. e.*, the jobber licensing system.

It is well settled that in enforcing the antitrust laws the courts will frame a decree broad enough to prevent evasion and will resolve any doubts against the wrongdoer. In *Local 167* v. *United States*, 291 U. S. 293, this Court said (page 299):

> The United States is entitled to effective relief. To that end the decree should enjoin acts of the sort that are shown by the evidence to have been done or threatened in furtherance of the conspiracy. It should be broad enough to prevent evasion. In framing its provisions doubts should be resolved in favor of the Government and against the conspirators. *Warner & Co.* v. *Lilly & Co.*, 265 U. S. 526, 532.

Appellant argues that the decree should have been limited to enjoining the particular restraints

imposed and to enjoining specific activities in connection with the licensing system. In *Gompers* v. *Bucks Stove & Range Co.*, 221 U. S. 418, it was said (pages 438–439):

> To hold that the restraint of trade under the Sherman anti-trust act, or on general principles of law, could be enjoined, but that the means through which the restraint was accomplished could not be enjoined would be to render the law impotent.

The foregoing rules are clearly applicable to the instant case. There can be no question but that the jobber licensing system was the means by which the restraint of trade here charged was carried out and made effective. The belief is widespread in the industry that appellant compels its jobber licensees to maintain resale prices and to refrain from price competition. In such circumstances the only practical remedy is to strike down the scheme in its entirety. No other decree will suffice to assure jobbers that they are completely free of domination and free to engage in the competition which is protected by the antitrust laws.[39]

Appellant urges that the abolition of the licensing system will prevent it from enforcing various

[39] In its brief appellant suggests that the court cannot "foresee all of the future problems" and that changes in appellant's operations or in conditions in the industry may make the decree unduly burdensome (appellant's brief, p. 79). We submit that this Court should not modify the decree on the basis of speculations as to hypothetical conditions. If changes of the kind described by appellant take place in the future and the decree is unduly burdensome, the appellant is free to apply to the district court for any necessary modification.

other restrictions relating to health regulations, the maintenance of the quality of its product, and the protection of its trade-mark privileges. These, it asserts, are legitimate restrictions which it is entitled to impose and which it can enforce only through the jobber licensing system. Neither conclusion is sound.

But even assuming that the various incidental restrictions in the licenses bear some remote relationship to the protection of appellant's legitimate interests, there can be no question but that the Court could properly strike down the entire system, including the incidental restrictions. The power of the Court to do so is not unlike the power of the legislature to prohibit innocuous activities when in its judgment the prohibition is essential to the accomplishment of its principal purpose.[40] The principal purpose of the decree in this case is to prevent appellant from continuing to restrain trade by means of the jobber licensing system. As we have pointed out, the only effective way to accomplish this result is to prevent the use of the system.

The mere fact that appellant may be satisfied with the jobber licensing system as a means of securing the protection to which it says it is legitimately en-

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[40] In *Purity Extract Co.* v. *Lynch*, 226 U. S. 192, this Court said (page 201):

> It does not follow that because a transaction separately considered is innocuous it may not be included in a prohibition the scope of which is regarded as essential in the legislative judgment to accomplish a purpose within the admitted power of the Government. *Booth* v. *Illinois*, 184 U. S. 425; *Otis* v. *Parker*, 187 U. S. 606; *Ah Sin* v. *Wittman*, 198 U. S. 500, 504; *New York ex rel. Silz* v. *Hesterberg*, 211 U. S. 31; *Murphy* v. *California*, 225 U. S. 623.

titled is no excuse for having cloaked an illegal restraint of trade under the guise of protecting its interests. We submit that in view of appellant's past conduct it should not be allowed to retain so powerful an economic weapon regardless of the purpose for which it is to be used.

By appellant's own admission appellant has heretofore attempted to keep its records and otherwise to conduct its business in such a way as to conceal the true purpose of the licensing plan. The plea for modification of the decree comes with little force in view of this record of secrecy and concealment. So long as the plan exists in any form the opportunity for similar stratagems will continue to exist. The government should not be required continually to police the administration of a licensing plan which presents inherent opportunities for misuse. The relief granted should be complete and final.

CONCLUSION

We respectfully submit that the decree of the court below should be affirmed.

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FEBRUARY 1940.

U. S. GOVERNMENT PRINTING OFFICE: 1940

SUPREME COURT OF THE UNITED STATES.

No. 536.—October Term, 1939.

Ethyl Gasoline Corporation, Earle W. Webb and John Coard Taylor, Appellants,

vs.

The United States of America.

Appeal from the District Court of the United States for the Southern District of New York.

[March 25, 1940.]

Mr. Justice Stone delivered the opinion of the Court.

The Government brought this suit in the District Court for Southern New York, to restrain appellant, Ethyl Gasoline Corporation, a Delaware corporation, and the other appellants, who are its officers, from granting licenses, under patents controlled by it, to jobbers to sell and distribute lead-treated motor fuel, and from enforcing provisions in licenses to oil refiners which restrict their sale of the motor fuel to the licensed jobbers, as violations of the Sherman Anti-trust Act. 26 Stat. 209, 15 U. S. C. § 1, as amended August 17, 1937, 50 Stat. 693. The trial court granted the relief sought and from its decision in favor of the Government the case comes here on direct appeal under the provisions of § 2 of the Expediting Act of February 11, 1903, as amended 36 Stat. 1167, 15 U. S. C. § 29; § 238 of the Judicial Code, as amended 43 Stat. 938, 28 U. S. C. § 345.

The case was tried on an agreed statement of facts which was incorporated in the findings of the trial court and, except as noted, there is no dispute as to the facts. The appellant corporation is engaged in the manufacture and sale of a patented fluid compound containing tetraethyl lead, a poisonous substance, which, when added to gasoline used as a motor fuel, increases the efficiency of high pressure combustion engines in which the fuel is consumed. The Ethyl Corporation owns two patents covering the composition of the fluid, No. 1,592,954 of July 20, 1926, and No. 1,668,022 of May 1, 1928. It has a third patent, No. 1,573,846 of February 23, 1926, claiming a motor fuel produced by mixing gasoline with the

patent fluid compound, which is claimed also by the two patents first mentioned. It also has a patent, No. 1,787,419, of December 30, 1930, claiming a method of using fuel containing the patented fluid in combustion motors. The corporation manufactures and sells the patented fluid to oil refiners, solely for use in the production of the improved type of motor fuel. It issues licenses under its patents to refiners and to jobbers of motor fuel on terms and conditions presently to be noted, but it does not charge or receive any royalty for its licenses. It derives its profit solely from the sale of the patented ethyl fluid to its refiner licensees.

The Licensing Agreements.

Appellant grants licenses under its patents to most of the large oil refining companies in the United States, to manufacture, sell and distribute motor fuel containing the patented fluid. The licenses provide that appellant will sell to the licensees their requirements of the patented fluid. They prohibit the licensees from selling the manufactured product to any except to other licensed refiners, to jobbers licensed by appellant and to retail dealers and consumers. They require the licensed refiners to mix the patented fluid with the gasoline at their refineries with equipment approved by appellant and in conformity to regulations promulgated by the Surgeon General of the United States and any other governmental body having jurisdiction. The refiners agree to impose obligations on all purchasers to conform to such health regulations and to require them to impose like obligations on those to whom they sell. The refiners agree, upon notice by appellant, to discontinue sales to other refiners or jobbers whose licenses appellant has cancelled. The licenses also provide for the maximum amount of the fluid to be used in the gasoline; and that, within that limit, the licensees' regular or "best non-premium" gasoline shall have a maximum octane rating of 70[1] and shall be sold as the next

[1] The utility of lead-treated gasoline for use in high compression engines is expressed in terms of octane numbers, an arbitrary scale of measurement indicating the relative degree of compression to which the fuel may be subjected without causing "knock" in the engine, which is prevented or reduced by the use of the fuel. The octane rating of motor fuel increases with the amount of the patented fluid added to the gasoline which, in any case, is small. Appellant's licenses to refiners authorize the manufacture of gasoline of high octane rating, 68 or more, of two classes, "regular", in which there is one part of tetraethyl lead to 4200 parts of gasoline, and "ethyl gasoline", in which there is one part of tetraethyl lead to 1700 parts of gasoline.

highest priced motor fuel of the licensee below the licensee's ethyl gasoline, which shall have a minimum octane rating of 76 and shall be sold at a certain fixed price differential above the average net sales price of the licensees' best non-premium grade of commercial gasoline. The licenses further provide the conditions under which the name of the Ethyl Corporation and its trademark or trade names may be used in connection with the advertising and sale of the patented motor fuel.[2]

Jobbers are generally required by appellant to apply for licenses through the refiners from whom they expect to purchase the motor fuel. The licenses to jobbers purport to grant the right to sell and deliver to retail dealers and consumers within a specified territory regular and ethyl gasoline, manufactured and sold by a designated licensed refiner.[3] The licensed jobbers are required to furnish appellant monthly with a list of all places at which the motor fuel is sold under the licenses. They agree to comply with health regulations relating to the handling of the motor fuel promulgated by the Surgeon General or other governmental agency; to post and distribute any notices concerning the handling of such fuel as required by the appellant; to permit physical examination of employees, and to require customers purchasing for resale to assume similar obligations. Adulteration and dilution of motor fuel distributed under the licenses is prohibited, and requirements similar to those contained in refiner licenses are imposed with respect to the use of appellant's corporate name and trade names in connection with the advertising and sale of the motor fuel. Appellant is given the right to cancel the jobbers' licenses at any time for failure to comply with their terms, and either party may cancel, with or without cause, on thirty days' written notice.

Effect of the Licensing Agreements on the Oil Industry.

The licensing system established by appellant affects and controls the business of the major part of those engaged in manufacturing

2 The name of the Ethyl Corporation and its trademark or trade names "Ethyl" and "Q" may not be used in connection with the advertising and sale of regular gasoline. All the licensees, with the exception of the Standard Oil Company of New Jersey, which markets the product under the name "Esso", are required to use the word "Ethyl" in connection with the sale and distribution of the Ethyl gasoline.

3 The only obligation which the licensor assumes toward the jobbers is to defend them against patent and trademark infringment suits.

and distributing motor fuel oil in the United States. Appellant issues licenses to 123 refiners, including every leading oil company, except one, the Sun Oil Company, which does not generally do business through jobbers. They refine 88% of all gasoline sold in the United States, and the gasoline processed by them under the license agreements is 70% of all the gasoline thus sold, and 85% of all gasoline processed to obtain a high octane rating.

Any jobber in the United States desiring to sell lead-treated gasoline must secure a license from the Ethyl Corporation, revocable at its will, before it can procure the gasoline from licensed refiners. Of the 12,000 jobbers doing business in the United States approximately 11,000 are licensed by appellant. The jobber must procure a new license on changing his source of supply. The greater part of all gasoline treated with the patented fluid is sold and transported in interstate commerce. It is sold in part through wholesale and retail outlets owned and controlled by the refiners and in part to individual retailers and consumers. A large volume and a substantial part of the whole is distributed through licensed jobbers to whom it is delivered at their bulk storage plants through the channels of interstate commerce.

By their terms, the licensing agreements serve to exclude all unlicensed jobbers from the market, and in the particulars already mentioned, and in others presently to be discussed, they control the conduct of the business of licensed jobbers in the distribution of the patented motor fuel and enable appellant at will to exclude others from the business The refiners' licenses also in terms place restraints on the sales price of refiners by establishing the prescribed differential between regular and ethyl gasoline. From this and from the other stipulated facts the Government argues that the control acquired through the licensing agreements over the refiners and jobbers has been used by appellants to control the business practices of the jobbers and particularly to maintain resale prices of the patented motor fuel in unlawful restraint of interstate commerce. In support of this contention it relies upon the long established practice of appellant to refuse to grant licenses to jobbers who cut prices or refuse to conform to the marketing policies and posted prices of the major refineries or the market leaders among them.

Decision Below and Contentions of Appellants.

The trial court concluded that in view of the indefinite language of the stipulation it was perhaps a permissible, though not a necessary conclusion that an agreement or understanding for the maintenance of prices existed between the appellant and the jobber licensees. But it considered it unnecessary to decide this issue, since it found that the appellant's licensing practices affecting the jobbers, in conjunction with the agreements and cooperation of the licensed refiners, had been used by appellant as the means of excluding from the market the unlicensed jobbers who do not conform to the market policies and posted gasoline prices adopted by the major oil companies or the market leaders among them, and that appellant uses the control thus established to coerce adherence to those policies and prices generally by the licensed jobbers, and that this restriction upon the industry effected through the license contracts with refiners and jobbers was not within appellant's patent monoply, and operated unreasonably to restrain interstate commerce in the processed gasoline.

It concluded that the licensing system was not, as appellant argues, necessary for the protection of such legitimate interests as the patentee had in the protection of the quality of the treated gasoline sold upon the market, and its use by the jobbers with safety to the public health. Appellants were accordingly enjoined from enforcing or attempting to enforce, or including in any subsequent agreement provisions that refiners shall sell lead-treated gasoline only to licensed jobbers, and from requiring or attempting to require jobbers to secure licenses, and from enforcing or attempting to enforce the provisions of any outstanding jobber licenses. The decree also declared the jobber licenses illegal and required appellant to notify the jobbers that the licenses have been cancelled.

Appellant, insisting that it does not use the jobbers' licensing system to maintain prices, makes two principal attacks on the decree. It urges that the licensing of the refiners and jobbers, the restraints upon the sale of the patented fuel by the refiners, and the restrictions placed upon the jobbers, are all reasonably necessary for the commercial development of appellant's patents and for insuring a financial return from them, and are therefore within its patent monopoly. In any case, it is said that the conditions attached to the refiners' and jobbers' licenses are appropriate and reasonably adapted to the maintenance of the quality of the product

and for the protection of the public in its use of a product containing a dangerous poison, and both are essential to the maintenance of the market for the patented fuel, on which the market for appellant's patented fluid depends. And since the jobbers' licenses are a necessary or appropriate means of protecting the interests of appellant and the public in the quality and safe use of the patented product, it is argued that the decree abolishing the whole system of jobbers' licenses went further than was necessary or proper to prevent such restraint as there may have been exerted on the jobbers with respect to prices and marketing policies.

Relation of the Licensing Agreements to Price Maintenance.

For the moment we may lay to one side the particular restrictions enumerated in the contracts of the refiners with jobbers, and turn to the relation of appellant's licensing policy to the maintenance of price policies by the jobbers. While the trial court found no contract or agreement which purports to prescribe resale prices or to exact any price policy of the jobbers, the stipulation of facts shows that appellant, through its patents, its contracts, and its licensing policy, has acquired the power to exclude at will from participation in the nationwide market for lead-treated motor fuel all of the 12,000 motor fuel jobbers of the country, by refusing to license any of the 1,000 unlicensed jobbers, or by cancelling, as it may at will, the licenses of any of the 11,000 licensed jobbers. This we assume, for present purposes, it could lawfully do by virtue of the power conferred by its patent to exclude any or all others from selling the patented product. But it does not follow that it can lawfully exercise that power in such manner as to control the patented commodity in the hands of the licensed jobbers who had purchased it, or their actions with respect to it in ways not within the limits of the patent monopoly, and conspicuously among such controls which the Sherman law prohibits and the patent law does not sanction is the regulation of prices and the suppression of competition among the purchasers of the patented articles. That appellant, by the plan and scope of its licensing policy, has acquired vast potential power to accomplish that end cannot be doubted. And we think the record supports the finding of the trial court that appellant has exercised that power continuously for a considerable period as a means of control over the price policies of the licensed jobbers.

From the stipulation of facts, it appears that since 1929 appellant has pursued the practice of investigating, through field agents, the "business ethics" of jobbers applying for licenses, and of rejecting such applications upon the adverse report of the agent. Appellant admits that the phrase "business ethics" is used to denote compliance with "marketing policies and prevailing prices of the petroleum industry", which are the "marketing policies and posted prices of the major oil companies or the market leaders among them". Among these is the Standard Oil Company of New Jersey which owns one-half of the capital stock of the appellant.[4] While not all applicants who have failed to maintain prices and marketing policies have been rejected, the record leaves no doubt that appellant has made use of its dominant position in the trade to exercise control over prices and marketing policies of jobbers in a sufficient number of cases and with sufficient continuity to make its attitude toward price cutting a pervasive influence in the jobbing trade.

In many instances, although not in all, an adverse report by the investigator as to the applicant's business ethics has been the sole ground for rejecting his application, and appellant admits that the greater number of applications for licenses which have been denied were rejected because of such an adverse report. In the cases in which licenses have been refused, something less than one-half of the rejected applicants were later granted licenses on their assurance that their marketing practices would be changed. The total number of rejections for failure to comply with that standard does not appear, for appellant has failed to keep any record of the ground of rejection of applications for licenses, admittedly because it is reluctant to preserve in its records "the extent to which maintenance of prices and marketing policies by jobbers entered into the granting of licenses."

Jobbers' licenses do not appear to have been cancelled because of failures to maintain policies or prices of the major oil companies whenever they have occurred, but it is an established practice of appellant to investigate the business ethics of licensed jobbers in order to ascertain whether they maintain the ~~marketing prices, policies~~ and

[4] The remainder is owned by General Motors Corporation and E. I. du Pont de Nemours Company.

practices prevailing or ostensibly prevailing in the industry. Representatives of appellant have from time to time, but not in every case, reported a jobber to his supplier or refiner for not maintaining the marketing policies of the latter, and in some cases they have united in persuading the jobber to mend his ways. Appellant has generally required each licensed jobber to purchase all his treated fuel from a single refiner and in some instances has refused a license to jobbers who wished to change their source of supply from one licensed refiner to another.

These long-continued practices have had the effect upon the industry naturally to be expected. Large numbers of refiners and the majority of jobbers believe that the jobbers must maintain the required business ethics in order to obtain licenses, and a number of licensed jobbers believe that they are required by appellant's licensing practices to maintain prices and abide by the marketing practices of the major oil companies. Appellant, in its printed instructions to field representatives as to the manner of conducting investigations of licensed jobbers, after pointing out that one of the reasons for the investigation of the jobber before the issuance of the license is to insure that he "will not resort to unethical methods in competing with our other licensed jobbers and refiners," and after describing the methods of conducting the investigation,[5] sums up the result as follows: "We have, through these supplemental investigations, been able to correct the ethyl picture to a considerable extent, and have succeeded in eliminating from our jobber lists some of our former accounts who were not a credit to us as licensees of the Ethyl Gasoline Corporation".

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[5] The investigator is reminded, in the *Field Representative Manual* that the question as to "business ethics" "can be answered only if the field representative has obtained sufficient information to be sure of his opinion". "Ethics of the jobber is based on the territory in which he is marketing and the conditions surrounding the sale of gasoline by other ethyl gasoline distributors. Care should be taken, if possible, to find out the instigator of any practices which tend to unfair competition. Business ethics is a relative quality and no hard and fast rule can be given to govern all cases. Information given to field representatives and picked up in the various contacts should be weighed carefully before a final decision is reached. One of the three words, 'good', 'questionable', or 'unethical' is to be used in answering this question."

In January, 1935 the question as to "business ethics" was eliminated from the form report of field agents. But business ethics has since continued to be one of the principal subjects of investigation and, as before, the result of the field agent's investigation has been included in his report and his recommendations have been generally accepted and acted upon by his superiors.

Scope of the Patent Monopoly.

It is not denied, and could not well be, that if appellant's comprehensive control of the market in the distribution of the lead-treated gasoline, as disclosed by the record, had been acquired without aid of the patents, but wholly by the contracts with refiners and jobbers, such control would involve a violation of the Sherman Act. *Paramount Famous Corp.* v. *United States*, 282 U. S. 30, 43; *United States* v. *First National Pictures, Inc.*, 282 U. S. 44. Cf. *Frey & Son, Inc.* v. *Cudahy Packing Co.*, 256 U. S. 208; *Federal Trade Commission* v. *Beech-Nut Packing Co.*, 257 U. S. 441. And so we turn to the consideration of the patents and the patent law to ascertain whether the monopoly which they have given appellant affords a lawful basis for the control over the marketing of motor fuel which the record discloses. Cf. *United States* v. *General Electric Co.*, 272 U. S. 476. In considering that question we assume the validity of the patents, which is not questioned here.

The patent law confers on the patentee a limited monopoly, the right or power to exclude all others from manufacturing, using, or selling his invention. R. S. § 4884, 35 U. S. C. § 40. The extent of that right is limited by the definition of his invention, as its boundaries are marked by the specifications and claims of the patent. *Motion Picture Patents Co.* v. *Universal Film Co.*, 243 U. S. 502, 510. He may grant licenses to make, use or vend, restricted in point of space or time, or with any other restriction upon the exercise of the granted privilege, save only that, by attaching a condition to his license he may not enlarge his monopoly and thus acquire some other which the statute and the patent together did not give.

He may not, by virtue of his patent, condition his license so as to tie to the use of the patented device or process the use of other devices, processes or materials which lie outside of the monopoly of the patent licensed; *Motion Picture Patents Co.* v. *Universal Film Mfg. Co., supra; Carbice Corporation* v. *American Patents Corporation*, 283 U. S. 27, 31; *Leitch Manufacturing Co.* v. *Barber Co.*, 302 U. S. 458; cf. *United Shoe Machinery Co.* v. *United States*, 258 U. S. 451, 462; *International Business Machines Corp.* v. *United States*, 298 U. S. 131, 140; or condition the license so as to control conduct by the licensee not embraced in the patent mon-

opoly, *Standard Sanitary Mfg. Co.* v. *United States*, 226 U. S. 20; *Interstate Circuit, Inc.* v. *United States*, 306 U. S. 208, 228-230; or upon the maintenance of resale prices by the purchaser of the patented article. *Adams* v. *Burke*, 17 Wall. 453; *Bobbs-Merrill Co.* v. *Straus*, 210 U. S. 339; *Dr. Miles Medical Co.* v. *John D. Park & Sons Co.*, 220 U. S. 373; *Bauer & Cie* v. *O'Donnell*, 229 U. S. 1; *Straus* v. *Victor Talking Machine Co.*, 243 U. S. 490; *Boston Store of Chicago* v. *American Graphophone Co.*, 246 U. S. 8; cf. *United States* v. *General Electric Co., supra*, 485.

Appellant, as patentee, possesses exclusive rights to make and sell the fluid and also the lead-treated motor fuel. By its sales to refiners it relinquishes its exclusive right to use the patented fluid and it relinquishes to the licensed jobbers its exclusive rights to sell the lead-treated fuel by permitting the licensed refiners to manufacture and sell the fuel to them. And by the authorized sales of the fuel by refiners to jobbers the patent monopoly over it is exhausted, and after the sale neither appellant nor the refiners may longer rely on the patents to exercise any control over the price at which the fuel may be resold. *Adams* v. *Burke, supra; Bobbs-Merrill Co.* v. *Straus, supra; Bauer & Cie* v. *O'Donnell, supra; Motion Pictures Patents Co.* v. *Universal Film Co., supra.*

The picture here revealed is not that of a patentee exercising its right to refuse to sell or to permit his licensee to sell the patented products to price-cutters. Compare *United States* v. *Colgate & Co.*, 250 U. S. 300 with *United States* v. *A. Schrader's Son, Inc.*, 252 U. S. 85. A very different scene is depicted by the record. It is one in which appellant has established the marketing of the patented fuel in vast amounts on a nationwide scale through the 11,000 jobbers and at the same time, by the leverage of its licensing contracts resting on the fulcrum of its patents, it has built up a combination capable of use, and actually used, as a means of controlling jobbers' prices and suppressing competition among them. It seems plain that this attempted regulation of prices and market practices of the jobbers with respect to the fuel purchased, for which appellant could not lawfully contract, cannot be lawfully achieved by entering into contracts or combinations through the manipulation of which the same results are reached by the exercise of the power which they give to control the action of the purchasers. Such contracts or

combinations which are used to obstruct the free and natural flow in the channels of interstate commerce of trade even in a patented article, after it is sold by the patentee or his licensee, are a violation of the Sherman Act. *Federal Trade Commission* v. *Beech-Nut Company, supra,* 453; *United Shoe Machinery Co.* v. *United States, supra; Victor Talking Machine Co.* v. *Kemeny,* 271 Fed. 810, 817; cf, *United States* v. *A. Schrader's Son, Inc., supra.* Agreements for price maintenance of articles moving in interstate commerce are, without more, unreasonable restraints within the meaning of the Sherman Act because they eliminate competition, *United States* v. *Trenton Potteries Co.,* 273 U. S. 392, and agreements which create potential power for such price maintenance exhibited by its actual exertion for that purpose are in themselves unlawful restraints within the meaning of the Sherman Act, which is not only a prohibition against the infliction of a particular type of public injury but "a limitation of rights which may be pushed to evil consequences and therefore restrained". *Standard Sanitary Mfg. Co.* v. *United States, supra,* 49; *American Column Co.* v. *United States,* 257 U. S. 377, 400; *United States* v. *American Linseed Oil Co.,* 262 U. S. 371; *United States* v. *Trenton Potteries Co., supra,* 397, 398.

The extent to which appellant's dominion over the jobbers' business goes beyond its patent monopoly, is emphasized by the circumstances here present that the prices and market practices sought to be established are not those prescribed by appellant-patentee, but by the refiners. Appellant neither owns nor sells the patented fuel nor derives any profit through royalties or otherwise from its sale. It has chosen to exploit its patents by manufacturing the fluid covered by them and by selling that fluid to refiners for use in the manufacture of motor fuel. Such benefits as result from control over the marketing of the treated fuel by the jobbers accrues primarily to the refiners and indirectly to appellant, only in the enjoyment of its monopoly of the fluid secured under another patent. The licensing conditions are thus not used as a means of stimulating the commercial development and financial returns of the patented invention which is licensed, but for the commercial development of the business of the refiners and the exploitation of a second patent monopoly not embraced in the first. The patent monopoly of one invention may no more be enlarged for the exploitation of a monopoly of another, see *Standard Sanitary*

Mfg. Co. v. *United States, supra,* than for the exploitation of an unpatented article, *United Shoe Machinery Co.* v. *United States, supra; Carbice Corporation* v. *American Patents Corporation, supra; Leitch Manufacturing Co.* v. *Barber Co., supra; American Lecithin Co.* v. *Warfield Co.,* 105 F. (2d) 207, or for the exploitation or promotion of a business not embraced within the patent. *Interstate Circuit, Inc.* v. *United States, supra,* 228-230.

Protection of Health and Quality of Product.

The trial court was of opinion that such interest as appellant has in protecting the health of the public in connection with the distribution of the fuel, and in preventing adulteration, deterioration and dilution of the motor fuel in the hands of the jobbers may be adequately protected without resort to the jobber license device which has been and is capable of being used for other and illicit purposes. Compare *International Business Machines Corporation* v. *United States, supra,* 139, 140. This conclusion is, we think, amply supported by the record. The precautions taken to protect the public health in the handling of the motor fuel by jobbers and service stations includes the health restrictions imposed on jobbers by the refiners included in their contracts with jobbers, inspections, more or less perfunctory, by representatives of appellant and the posting by jobbers and distributors of notices supplied by appellant stating that the fuel contains lead and is for use as a motor fuel only. These activities are not interfered with by the decree.

There is no authentic instance of injury resulting from the handling of lead-treated gasoline after its manufacture attributable to its lead content. Extensive expert study, carried on under direction of appellant over a perod of years, detailed in the record, resulted in a report that the risk arising from the absorption of lead through the skin in the handling of the lead-treated fuel is so small as to be negligible, and that the use of the fuel made in conformity to the refiners' licenses has not caused or produced any dangers or hazards to health.

The avoidance of such dangers as there may be in the handling of the motor fuel by jobbers and distributors is plainly not beyond control by public health regulations, and would seem, as the district court thought, to be amply secured, in any case, through the self-interest of the refiners in requiring the purchasers

of their gasoline to take proper health precautions including the posting of notices which appellant supplies and by the continuance of appellant's inspection, all of which are permissible under the decree. It is likewise apparent that the interest the appellant has in preventing dilution, adulteration and deterioration of the treated gasoline in the hands of the jobbers may be similarly protected without continued resort to jobber licenses, which is precluded by reason of their use and the danger of their continued use for other and illegal purposes.

Since the unlawful control over the jobbers was established and maintained by resort to the licensing device, the decree rightly suppressed it even though it had been or might continue to be used for some lawful purposes. The court was bound to frame its decree so as to suppress the unlawful practices and to take such reasonable measures as would preclude their revival. *Local 167* v. *United States*, 291 U. S. 293; *Warner & Co.* v. *Lilly & Co.*, 265 U. S. 526, 532. It could, in the exercise of its discretion, consider whether that could be accomplished effectively without disestablishing the licensing system, and whether there were countervailing reasons for continuing it as a necessary or proper means for appellant to carry out other lawful purposes. Since the court rightly concluded that these reasons were without substantial weight, it properly suppressed the means by which the unlawful restraint was achieved. *Local 167* v. *United States*, *supra*, 299, 300; cf. *Merchants Warehouse Co.* v. *United States*, 283 U. S. 501, 513.

Affirmed.

Mr. Justice McREYNOLDS and Mr. Justice ROBERTS took no part in the consideration or decision of this case.

A true copy.

Test:

Clerk, Supreme Court, U. S.